POSSIBLE RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES—Part 2

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

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CONTENTS

Page

Press release of Wednesday, February 1, 1984, announcing hearing 1

WITNESSES

Altschuler, Irwin P., Foreign Trade Association of Southern California, Laredo Customhouse Brokers Association, El Paso Customhouse Brokers Association, Southern Border Customhouse Brokers Association, and International Commerce Committee of the Los Angeles Area Chamber of Commerce 82

American Association of Exporters and Importers, W. Henry Parsons and Steven Kersner 26

American Federation of Labor and Congress of Industrial Organizations, Stephen Koplan and Mark Anderson 67

Amerine, David, Foreign Trade Association of Southern California, Laredo Customhouse Brokers Association, El Paso Customhouse Brokers Association, Southern Border Customhouse Brokers Association, and International Commerce Committee of the Los Angeles Area Chamber of Commerce 82

Anderson, Mark, American Federation of Labor and Congress of Industrial Organizations 67

Association of American Chambers of Commerce in Latin America, John T. Plunket 73

Bread for the World, John P. Olinger 55

Bruns, Howard J., Sporting Goods Manufacturers Association 43

California-Arizona Citrus League, California Almond Growers Exchange, California Raisin Advisory Board, California Prune Advisory Board, and California Dried Fig Advisory Board, Julian B. Heron, Jr 10

Cohen, Calman J., Emergency Committee for American Trade 38

Dennison, Maria, Sporting Goods Manufacturers Association 43

El Paso Customhouse Brokers Association, Irwin P. Altschuler and David Amerine 82

Emergency Committee for American Trade, Calman J. Cohen 38

Florida Citrus Mutual, Matthew T. McGrath on behalf of Bobby F. McKown 6

Florists' Transworld Delivery Association, Donald Flowers and Gordon Smith 97

Flowers, Donald, Florists' Transworld Delivery Association 97

Foreign Trade Association of Southern California, Irwin P. Altschuler and David Amerine 82

General Electric Co., W. Henry Parsons 26

Heron, Julian B., Jr., California-Arizona Citrus League, Sun-Diamond Growers of California, California Almond Growers Exchange, California Raisin Advisory Board, California Prune Advisory Board, Tri-Valley Growers of California, and California Dried Fig Advisory Board 10

Heslip, John, National Concrete Masonry Association 76

International Commerce Committee of the Los Angeles Chamber of Commerce, Irwin P. Altschuler and David Amerine 82

Kersner, Steven, American Association of Exporters and Importers 26

Koplan, Stephen, American Federation of Labor and Congress of Industrial Organizations 67

Laredo Customhouse Brokers Association, Irwin P. Altschuler and David Amerine 82

Matsui, Hon. Robert T., a Representative in Congress from the State of California 4

McCoy, Jon P., Valley Builders Supply, Inc., and National Concrete Masonry Association 76

McGrath, Matthew T., Florida Citrus Mutual, on behalf of Bobby F. McKown 6

Page

McKown, Bobby F. (*See*, Florida Citrus Mutual.)
National Concrete Masonry Association, Jon P. McCoy and John Heslip 76
National Council of Farmer Cooperatives, Randy M. Russell 14
Olinger, John P., Bread for the World 55
Parsons, W. Henry, General Electric Co., on behalf of American Association of Exporters and Importers 26
Plunket, John T., Association of American Chambers of Commerce in Latin America 73
Russell, Randy M., National Council of Farmer Cooperatives 14
Smith, Gordon, Florists' Transworld Delivery Association 97
Southern Border Customhouse Brokers Association, Irwin P. Altschuler and David Amerine 82
Sporting Goods Manufacturers Association, Howard J. Bruns and Maria Dennison 43
Sun-Diamond Growers of California, Julian B. Heron, Jr 10
Thomas, Hon. William M., a Representative in Congress from the State of California 2
Tri-Valley Growers of California, Julian B. Heron, Jr 10
Valley Builders Supply, Inc., Jon P. McCoy 76

SUBMISSIONS FOR THE RECORD

American Farm Bureau Federation, statement 104
American Fiber, Textile, Apparel Coalition, W. Ray Shockley, letter 105
American Iron & Steel Institute, statement 106
American-Israel Chamber of Commerce & Industry, Inc., Dr. Philip Opher, statement 108
Andean Group, statement 110
Argentine Republic, Embassy of, statement 112
Association of American Publishers, Inc., statement 116
Bicycle Manufacturers Association of America, Inc., Lauren R. Howard, statement 123
Brass & Bronze Ingot Institute, Norman Lavin, statement 129
California State World Trade Commission, statement 130
Chamber of Commerce of the United States, Dr. Ava S. Feiner, statement 131
Daniels, Michael P., Korean Traders Association, statement 147
Detroit Hoist & Crane Co., Larry Pentiuk, letter 135
Dia-Compe, Inc., Ronald K. Kolins, statement 135
Elscint, Inc., Lori-Nan Kaye, statement 138
Emrich, Thomas D., Korean Traders Association, statement 147
Feiner, Dr. Ava S., Chamber of Commerce of the United States, statement 131
Halperin, Dan, Economic Minister, Embassy of Israel, Government of Israel, statement 140
Howard, Lauren R., Bicycle Manufacturers Association of America, Inc., statement 123
Israel, Government of:
  Dan Halperin, Economic Minister, Embassy of Israel, statement 140
  Ehud Polonsky, Assistant Economic Minister, Embassy of Israel, statement 143
  Abraham Rosental, Consul and Trade Commissioner, Trade Center, statement 144
Israel Products, Inc., Ted Wolsky, statement 147
Kaye, Lori-Nan, Elscint, Inc., statement 138
Kolins, Ronald K., Dia-Compe, Inc., statement 135
Korean Traders Association:
  Michael P. Daniels, Thomas D. Emrich, joint statement 147
  Duck-Woo Nam, statement 152
Lavin, Norman, Brass & Bronze Ingot Institute, statement 129
Leather Products Coalition, Stanley Nehmer, statement 153
Nam, Duck-Woo, Korean Traders Association, statement 152
Nehmer, Stanley, Leather Products Coalition, statement 153
Opher, Dr. Philip, American-Israel Chamber of Commerce & Industry, Inc., statement 108
Pentiuk, Larry, Detroit Hoist & Crane Co., letter 135
Polonsky, Ehud, Assistant Economic Minister, Embassy of Israel, Government of Israel, statement 143
Recording Industry Association of America, Inc., statement 160

	Page
Rosental, Abraham, Consul and Trade Commissioner, Trade Center, Government of Israel, statement	144
Sherwin-Williams Co., statement	169
Shockley, W. Ray, American Fiber, Textile, Apparel Coalition, letter	105
Thomson, Douglas, Toy Manufacturers of America, Inc., statement	170
Toy Manufacturers of America, Inc., Douglas Thomson, statement	170
Wolsky, Ted, Israel Products, Inc., statement	147

POSSIBLE RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES—PART 2

WEDNESDAY, FEBRUARY 8, 1984

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The subcommittee met at 9:35 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearings follows:]

[Press Release of Wednesday, February 1, 1984]

HON. SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, HOUSE OF REPRESENTATIVES, ANNOUNCES DATES FOR COMPLETING HEARINGS ON POSSIBLE RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that hearings begun on August 3, 1983, on possible renewal of the Generalized System of Preferences (GSP) (previously announced in press release #14) will be completed on Wednesday, February 8. and Thursday, February 9, 1984. These hearings will be held both days in the Committee on Ways and Means main hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.

Testimony will be received only from witnesses who have already requested to appear. In order to assure the most productive use of the limited amount of time available for questioning, witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements to the full Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances.

Each statement to be presented to the Subcommittee or any written statement submitted for the record must contain the following information: (1) The name, full address, and capacity in which the witness will appear (as well as a telephone number where he or his designated representative may be reached); (2) a list of any clients or persons, or any organization for whom the witness appears; and (3) a topical outline or summary of the comments and recommendations in the full statement.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting a written statement in lieu of a personal appearance should submit at least six (6) copies of their statement, by the close of business Friday, February 24, 1984, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may submit 100 additional copies for this purpose during the course of the public hearing.

Chairman GIBBONS. Good morning, ladies and gentlemen. This is a meeting of the Committee on Ways and Means Trade Subcommittee.

This morning we will continue the hearings that we began last August 3 on legislative proposals to renew the authority for duty-free treatment under the Generalized System of Preferences. Since our time is very limited today and tomorrow, we will receive testimony only from witnesses who have previously requested to appear. However, the hearing record will remain open for written statements until Friday, February 24.

In order to maximize the time for questions, I urge witnesses to summarize their testimony on the understanding that their statements will be printed in full in the hearing record.

Our first witnesses today are our colleagues, Mr. Thomas and Mr. Matsui.

Mr. Thomas, we have you first, so we will hear you first.

STATEMENT OF HON. WILLIAM M. THOMAS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. THOMAS. Thank you, Mr. Chairman.

I want to thank you and the members of the subcommittee for giving us the opportunity to testify on the GSP. As you know, my colleague, Mr. Matsui and myself of California have introduced H.R. 3561 because of our deep concern about this program. Our bill would deny extensions of duty-free treatment under GSP to foreign agricultural products. I believe it is legislation that our colleagues have to understand that we support very sincerely and that a significant number of groups in the agricultural area support formally and all of them support informally.

My early history as a Member of the House of Representatives was being called to rush down and testify in terms of GSP-eligible products and to try to stem the tide. As you know, coming from Florida, California has a lot of specialty agriculture and we seem to be inordinately singled out in terms of the particular products. I won't say it is from A to Z, but if you would look at a list of over 10 pages of those agricultural commodities on the GSP list, it goes A to Y anyway and those that have requests in go from A to W, covering a great number of products.

We believe there are some strong reasons for supporting the exclusion as is the case with certain products that are specifically exempt from GSP. Foreign products are generated with fairly mature technologies, and the ease of entry into farm business is well established.

Our concern is that in trying to utilize U.S. Government grants on GSP benefits and subsequently have to offer other nations trade concessions to get the tariff and nontariff barriers reduced, what we would like to see is a complete exemption from GSP so the U.S. duties on these items can be used as an incentive for foreign countries to reduce their trade barriers.

I would like to mention that the administration's GSP proposal moves in the direction that agriculture supports, but based on past experience, we feel strongly that it simply does not go far enough.

I am also concerned about the proposal that the administration has in terms of a violation of GATT under the most-favored-nation principle. The administration's proposal suggests that the approach that they would like to take would be one which I would find it difficult pointing out the error of the European Community's waste in terms of North African citrus products, a thing I have done, as the chairman well knows, session after session with the Europeans, because it seems to me that the United States, the administration's suggested change is in violation of that most-favored-nation principle which we are pointing out earnestly that the European Community is violating.

So I do want to emphasize the fact that the agricultural community is serious about this. We feel that the one-sidedness of the current structure is modified slightly by the administration's approach. It certainly doesn't go far enough, but that there are significant reasons for excluding agricultural products from GSP.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF HON. WILLIAM M. THOMAS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, I want to thank you and other members of the Subcommittee for giving me this opportunity to testify on the Generalized System of Preferences. As you know, my colleague from California and I have introduced H.R. 3581 because of our deep concern about this program. H.R. 3581, which would deny extensions of duty free treatment under GSP to foreign agricultural products, is legislation which both we and our constituents in agriculture very much support.

At the outset, however, I do want to point out that this legislation does not reflect a change in my support of free trade or in the support of free trade on the part of my constituents and others in agriculture. We still believe a free market in farm products would be the best market, and if that were the case today we would be quite pleased.

Unfortunately, as the members of the Subcommittee are well aware, we have yet to achieve free trade in agriculture. This situation, and not protectionism, underlies H.R. 3581 and its support by many in the farm community. What we would perfer is a situation where the U.S. would have the power to negotiate the elimination of trade barriers using U.S. duties as negotiating stock.

There are strong reasons for supporting H.R. 3581. As is the case with certain glass products, footwear and textiles, which are specifically exempt from GSP under section 503 of the Trade Act of 1974 (19 U.S.C. 2463), farm products are generated with fairly mature technologies. Entry barriers to the production of farm goods are fairly low and the ease of entry into farm businesses is well-established. In fact, U.S. exporters are finding that foreign producers are already highly competitive in most world markets. Nevertheless, the same nations that benefit from GSP often impose high tariff and nontariff barriers on U.S. exports.

Rather than see the U.S. grant GSP benefits and then subsequently have to offer other nations additional trade concessions in order to see those tariff and nontariff barriers reduced, those of us supporting H.R. 3581 would prefer to see farm products completely exempted from GSP so that U.S. duties on these items can be used as an incentive for foreign countries to reduce their own trade barriers.

The Administration's GSP proposal moves in a direction agriculture supports but it does not go far enough. The provisions of this proposal allow duty free treatment to be used as negotiating stock but do not compell such uses. The proposal clearly allows continued unilateral extensions of duty free treatment to take place.

In fact, many who review the Administration recommendation wonder about its consistency with the General Agreement on Tariffs and Trade (GATT). GATT would appear, by virtue of its Most Favored Nation principle, to require that the U.S. *not* use duty-free treatment to create bilateral arrangements. That the Administration's proposal suggests such a result seems contrary to the Agreement and to U.S. opposition to similar arrangements used by the European Community to grant preferential treatment to North African citrus. The U.S., in fact, has been trying to resolve a dispute over the E.C.'s citrus duties for several years on the very grounds that the

Community's practices violate the Most Favored Nation principle. How we can pursue the kind of trading contemplated by the proposal without effectively mooting our own demand for relief from the Community is not at all clear.

Again, my constituents and I hope that H.R. 3581 or similar accommodations will at least be made part of any renewal or extension of the GSP program. As the diversity of farm groups supporting H.R. 3581 at this hearing indicates, there is a good deal of support for adopting this approach. We are more than willing to work toward free trade in agricultural products, and believe preserving U.S. tariffs as negotiating stock would be an appropriate step in that direction.

Chairman GIBBONS. Thank you.

Mr. Matsui.

STATEMENT OF HON. ROBERT T. MATSUI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. MATSUI. Thank you, Mr. Chairman.

I want to thank you and the committee for offering us this opportunity to testify on H.R. 3581. This bill would exclude agricultural products for duty-free treatment under GSP. Congressman Thomas, who is the sponsor of the bill, and myself as the cosponsor, have introduced this bill because we feel it is time to put a stop to a policy that imposes serious competitive hardships on U.S. agriculture while it rewards already competitive foreign agricultural producers.

Agricultural interests are faced with growing economic hardships affecting their domestic and foreign marketing efforts. Many of these hardships arise from tariff and nontariff trade barriers erected by foreign countries that are themselves beneficiaries of GSP benefits. Our farmers are thus put in a situation where their country is granting trade concessions to the very nations that are undermining their livelihood by undercutting their export trade. Not only does this policy suggest indifference to agriculture's difficult economic situation, but it encourages the beneficiary countries to continue to erect unfair trade barriers.

We are not advocating protectionism. We are committed to free trade and strongly believe that H.R. 3581 is consistent with that commitment. Without the benefit of GSP duty-free status, agricultural products from current beneficiary countries would be treated on equal terms with those of nonbeneficiary countries, consistent with the most favored nation principle, which has long governed the international trade policies of the United States.

Not only does H.R. 3581 make economic sense for U.S. agriculture, it makes policy sense as well. I have already noted that the agricultural exclusion would send the current message to those beneficiary countries that have instituted unfair trade practices adversely affecting our agricultural exports.

It is equally important to note that agricultural products were never intended to be the object of the GSP. The legislative history of the Trade Act of 1974 clearly indicates that GSP was designed to develop the industrial sectors of developing countries. Congress recognized at the time that many developing countries already had well developed agricultural sectors that were competitive in the world market. Furthermore, the dependence of these countries on their agricultural sectors had limited their growth in other areas. The GSP was intended to diversify developing countries' economies and not prolong this harmful dependency.

Unfortunately, GSP's original intent has been ignored. More and more agricultural items are added to or requested to be added to the GSP eligibility list every year. The result is that beneficiary countries get economic aid they really do not need while resources are diverted from their industrial development efforts.

Clearly, if agricultural products continue to be added to the GSP product list, few true and intended benefits will accrue to developing countries while the American farmer will continue to be harmed. We must not continue to support a policy that contradicts the original intent of the legislation, encourages foreign unfair trade practices, and hurts our constituents. H.R. 3581 must be a part of the renewal of the GSP.

We certainly hope the members of the subcommittee will examine closely our bill and give it favorable consideration.

Thank you.

Chairman GIBBONS. Yes. Thank you very much.

We appreciate you coming here. We know that this is a difficult problem. The GSP expires, Congress has to make a decision about what we want to do in the future. We will need all the help that you gentlemen can give us. We appreciate your statements this morning.

Mr. Schulze, do you have questions?

Mr. SCHULZE. I am not familiar with this legislation, Mr. Chairman, and you will have to forgive me if I ask a question which proves that point, but is this protectionism for agriculture?

Mr. THOMAS. Mr. Schulze, your question really is one which is used all the time in terms of the positions that we are taking. It is not protectionism.

Mr. SCHULZE. This is free trade?

Mr. THOMAS. What we are asking for—of course, the kind of agriculture that I have in my area is exporting agriculture. The marketplace is the world and they have to sell agricultural products in the world to survive.

We feel that we can compete with anybody on a fair trade-free trade basis. What we do protest is the addition—and I believe in terms of those items added to the original GSP list over the years, the majority of them have been agricultural products. As I said earlier, we have a lot of specialty agriculture that especially hits us hard. What we are asking for is not an almost automatic addition to a GSP preference list, but what we are asking for is to take these potential tariff and nontariff relationships and trade them off for reductions in other countries that don't go through what has amounted to as an almost automatic granting of the benefit.

In fact, if you are going to do it, what we are trying to do is provide additional tools for our negotiating folks in the administration to do a better job.

Mr. SCHULZE. You just think we can use this as additional leverage.

Mr. THOMAS. Absolutely.

Mr. SCHULZE. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you very much.

We will next have a panel of witnesses: Mr. McGrath, Mr. McKown, Mr. Heron, and Mr. Russell.

Let the record reflect their representation, which is Florida Citrus Mutual.

Mr. McGrath.

STATEMENT OF MATTHEW T. McGRATH, COUNSEL, FLORIDA CITRUS MUTUAL, ON BEHALF OF BOBBY F. McKOWN, EXECUTIVE VICE PRESIDENT

Mr. McGRATH. Thank you.

I am Matthew McGrath of the law firm of Barnes, Richardson, & Colburn, and I am appearing in behalf of Florida Citrus Mutual. Mr. McKown was unable to be here and I would like to enter a summary of his testimony.

FCM is a voluntary cooperative association representing over 13,200 citrus growers in Florida. There are an estimated 16,000 citrus growers in Florida, representing almost 20 percent of the 85,000-plus people directly employed in the Florida citrus industry.

FCM supports the principle of trade-related benefits for less developed trading partners, and supported the Caribbean Basin Initiative program. As with CBI, however, it is important that the GSP incorporate safeguards to prevent acute damage to import-sensitive agricultural industries.

The citrus industry has been consistently found to be import sensitive, in repeated denials of annual requests for GSP treatment for citrus products; in the injury finding in the countervailing duty investigation of frozen concentrated orange juice from Brazil; and in the market disruption procedures incorporated into the CBI for certain agricultural products.

The FCOJ and FCGJ markets are extremely price sensitive; the suppressive influence of duty-free imports can have an immediate and serious impact on citrus growers who receive the residual returns in the citrus marketing structure. Therefore, citrus products should continue to be treated as highly import sensitive within the context of the GSP program.

Because of special problems faced by certain proven import-sensitive industries, FCM recommends that changes be implemented in any renewal of the GSP program:

One, a 1-year moratorium on resubmission of requests for GSP treatment when such requests have been rejected;

Two, we would request a legislative requirement that the submission rules for requests to add items to the GSP eligibility list be strictly enforced; and

Three, we would suggest a requirement in the renewal legislation that full consideration be made of trade-distorting effects of GSP for derivative products of import-sensitive articles.

Certain byproducts of agricultural commodities have been granted GSP, such as orange oils, peel and other citrus byproducts while the basic product has not been eligible. This could have an adverse effect by encouraging a world oversupply situation in the basic commodity where the commodity and its byproducts are all part of one integrated industry. Therefore, we would request there be greater attention paid to the possible distorting effects of differential GSP treatment within commodity groups.

FCM recognizes the importance of the GSP program and the need for changes which promote U.S. exports as well as assisting developing countries. Provisions should be included in the renewal legislation to assure the viability of the import-sensitive U.S. citrus industry.

We would support the proposals pending now in various legislative forms to base the competitive need limitations on improved market access for U.S. exports in certain world markets. However, it is of primary importance to FCM that provisions be in the renewal legislation to assure viability of the import-sensitive U.S. citrus industry.

We ask that our suggestions be considered and incorporated into renewal legislation.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF BOBBY F. MCKOWN, EXECUTIVE VICE PRESIDENT, FLORIDA CITRUS MUTUAL

Mr. Chairman and members of the Committee, I am Bobby F. McKown, Executive Vice President of Florida Citrus Mutual, a voluntary cooperative trade association whose membership consists of 13,278 active Florida citrus growers. I appreciate the opportunity to testify on the possible renewal of the President's authority under Title V of the Trade Act of 1974 to grant duty-free treatment for imports of eligible articles from beneficiary developing countries. We also appeared before the Trade Policy Staff Committee in April 1983 and presented our suggestions for improvement in the administration of the GSP program. We wish to reiterate our concerns as this Subcommittee considers legislation to extend the President's authority under Title V.

The citrus industry is an extremely important segment of Florida's economy, accounting for over 30 percent of the four billion dollars of Florida farm-gate receipts in 1981. There are an estimated 16,000 citrus producers in Florida, representing almost 20 percent of the 85,000-plus people directly employed in the Florida citrus industry in jobs ranging from harvesting to research.

The sound and equitable administration of domestic and international trade policies are vital to the members of Florida Citrus Mutual and the United States citrus industry. While we support in principle the objectives of the United States GSP program, as we supported the recently approved Caribbean Basin Initiative legislation, it is essential that certain safeguards be built into the program to avoid unnecessary trade distortions and adverse consequences for sensitive domestic industries. The sensitivity of the citrus industry to imports from developing countries was recently reaffirmed in a countervailing duty determination of the U.S. International Trade Commission. On July 11, 1983, the ITC determined that the domestic industry is threatened with material injury by reason of subsidized imports of frozen concentrated orange juice from Brazil. The determination left in effect a suspension agreement whereby the Government of Brazil has agreed to impose an import tax to offset the net subsidies received by Brazilian concentrated orange juice exporters. Brazil, which is a principal beneficiary of the GSP program and accounts for a large proportion of the duty-free trade benefits, is now the largest producer of orange juice in the world. While Brazil would certainly not qualify for GSP treatment in the United States with respect to orange juice, it stands as an example of the potential of similarly situated, less-developed countries which have the benefits of ideal growing conditions and low wage labor, to disrupt the U.S. and world markets where conditions of excess supply prevail. Most importantly, the examples of Brazil and Mexico demonstrate that the U.S. tariff structure for citrus products does not inhibit development of foreign industries and permits the importation of adequate supplies of citrus when needed. The added incentive of duty-free treatment would not enhance economic development in beneficiary countries; it would simply distort the U.S. market structure. We suspect that similar circumstances exist in other U.S. agricultural sectors, and the theory of comparative advantage, as applied to agricultural products, serves the long term interests of neither the beneficiary country nor U.S. consumers.

The legislative history of the GSP program indicates that it was anticipated that fabricated non-agricultural products would be the principal subject of duty-free ben-

efits. The development which is encouraged by GSP treatment for citrus products is not the diversified industrial and economic development expected by preferential treatment. In fact, a recent United Nations Food Organization study suggested that the concentration of GSP benefits on agricultural products may actually hinder the overall economic development of some beneficiary countries. Since the U.S. citrus sector has already been demonstrated to be import sensitive and the current tariff structure has benefitted U.S. consumers by permitting adequate quantities of imported citrus products, we submit that citrus should be added to the list of articles which are import sensitive for purposes of the GSP program.

Florida Citrus Mutual, the Florida Citrus industry and the U.S. citrus industry recognize and understand the original purpose of the Generalized System of Preferences as it was conceived in the late 60's. However, we question the direction this system has taken in recent years. For instance, in 1969 when President Nixon approved the U.S. participation in a generalized system of preferences, his transmittal message on the initial bill indicated preferences are intended for a broad range of manufactured and semi-manufactured products and for only a selected list of agricultural and other primary products. This bill was subsequently signed into law by President Ford in January 1975.

According to a report published by the Foreign Agricultural Service in July 1982 the Generalized System of Preferences began its seventh year of operation on January 1, 1982. At that time, approximately 2,900 items had been approved for duty-free treatment under the GSP, and of those 400 were agricultural items. In 1976, the value of agricultural duty-free imports under the program amounted to $547.5 million. By 1981, this figure increased to over 1¼ billion dollars.

While we can recognize the Federal Government's concern for lesser developed countries and while we can understand a desire to provide some economic assistance to these various countries, we would urge the committee to study thoroughly the requests contained in our comments and brief. Representatives of our industry have traveled to Washington frequently in order to protect the economy and stability of our great industry, and we appreciate the opportunity to present this information in support of the Florida citrus industry. In numerous hearings before the ITC and TPSC citrus products have been proven import sensitive.

Sound and equitable administration of domestic and international trade policies are vital to the members of this association and the health of the Florida citrus industry. Consequently, we recommend that certain changes be made in the program which take full account of the sensitivity of the citrus and other U.S. industries to highly competitive imports from other countries. Florida Citrus Mutual suggests the following improvements.

A MORATORIUM FOR DEMONSTRATED IMPORT-SENSITIVE ARTICLES

Under current administration of the GSP statute, countries or foreign concerns may petition the Committee for GSP treatment each year, regardless of previous years' determinations not to grant eligibility, or refusal to accept petitions for consideration, because of past import sensitivity of an article. The process of repetitive petitioning for duty-free treatment not only taxes unnecessarily the resources of the domestic industry, but that of the Trade Policy Staff Committee and GSP Subcommittee staff as well. When a product was previously demonstrated to be import sensitive in the context of an annual review, current procedures permit the filing of new petitions in as short a period as 60 days after the Presidential Proclamation is issued, usually about April 1. While such re-filings must be accompanied by a showing of changed circumstances since the previous determination, it is still necessary for the Trade Policy Staff Committee to analyze the new petition and, until July 15, when petition acceptances are published, there is uncertainty in the trade about the future GSP status of product.

It is suggested that a moratorium of at least one year prior to re-petitioning be enforced when an article is demonstrated to be import-sensitive. Petitions filed before that time should be automatically rejected, without regard to the changed circumstances substantiation currently included in the regulations. This would avoid uncertainty in the affected import-sensitive domestic industry and avoid needless expenditure of Committee staff resources in repetitive reviews of petitions.

SPECIFIC COMMODITY—TSUS NUMBER

When a country and/or importer is petitioning for GSP treatment, the request must be by specific commodity as well as by TSUS number This will clarify the request since some TSUS numbers refer to several commodities or products.

INCREASED ENFORCEMENT OF PETITION REQUIREMENTS

The Trade Policy Staff Committee's regulations currently require that petitions for GSP eligibility for an article must submit "specific information on how the GSP treatment would affect the petitioner's business and the industry producing like or directly competitive articles in the United States, including information on how the requested action would affect competition in that industry; (ii) the source of petitioner's competition and the markets and firms supplied by both the petitioner and competitive firms, and (iii) (other available information)." 15 C.F.R. S2007.1(a)(4). Additional information required to be submitted by a petitioner includes data showing U.S. production capacity, employment, sales profitability, cost analysis, the number and location of firms, and the name of each beneficiary developing country which exports the relevent product to the United States. Much of this information is readily available to petitioning governments and parties from published sources or trade associations, yet foreign governments often simply submit lists of articles with little or no substantiating information, or in-depth projection of the manner in which each particular request will aid in the development of the nation's economic infrastructure.

Illustrations of the two problems I've just discussed have arisen with respect to the repeated requests for designation of GSP eligibility for frozen concentrated orange juice. In 1980, the Government of Mexico requested GSP treatment for orange concentrate, listing the item with several others and providing virtually no information about the country's industry and specific effects of its exports on either world markets or internal economic development. The petition was not accepted for review due to the domestic industry's import sensitivity (45 Fed. Reg. 55668 (Aug. 20, 1980)). In 1981, similar pro forma requests were submitted by Mexico and Colombia, with the same results (46 Fed. Reg. 37115 (July 17, 1981)). Again, in 1982, similar scant petitions were submitted by Mexico and Jamaica, with the same rejection (47 Fed. Reg. 31099 (July 16, 1982)). No detail of changed circumstances was presented, and the petitions were properly dismissed. Despite this clear history of sensitivity and the August 1982 preliminary determination of injury in the ongoing countervailing duty investigation of orange concentrate from Brazil, Committee rules permit re-application again by June 1 of this year. The strict enforcement of the Committee's petition requirements, and at least a one-year moratorium on articles after sensitivity has been determined, would serve both to conserve administrative resources and focus the attention of the requester on the developmental purpose of GSP treatment.

IMPORT SENSITIVITY OF DERIVATIVE PRODUCTS

In annual reviews, greater emphasis should be accorded analysis of possible adverse effects of GSP eligibility on derivative products of import-sensitive articles. This is of particular concern in a highly integrated industry such as the citrus industry. Duty-free treatment has recently been extended to imports of orange and grapefruit oils, as well as orange fruit peel, despite past findings of sensitivity of these articles. The Florida growers and processors depend on production and competitive sales of these commodities as much as on citrus juices, and it is erroneous to assume that "oil" and "peel" industries can be segregated for purposes of examining the possible adverse economic impacts of duty-free imports of such products. The expansion of orange production in developing countries, which may be encouraged by GSP treatment for oil and peel, will have obvious trade distoring effects in world markets as juice surpluses expand.

Consequently, Florida Citrus Mutual urges that the Committee require the submission by petitioners of information on basic and derivative products of articles subject to a request, especially in cases of highly integrated industry structures.

In conclusion, Florida Citrus Mutual supports the graduation principles enunciated by the Trade Policy Staff Committee in its last two annual reviews. A relative low level of imports of product into the United States, i.e., failure to approach competitive need limits, should not be the only criterion for determining whether a country has achieved the developmental goals envisioned by the GSP statute. A country's export performance in world and domestic markets should also be considered. Florida Citrus Mutual respectfully believes that these suggestions will help improve the GSP program in achieving its intended purposes, while assuring the competitive viability of U.S. industries in domestic and world markets.

Chairman GIBBONS. Thank you.

Our next witness is Mr. Heron, who represents a large group of producers of the California and Arizona area.

STATEMENT OF JULIAN B. HERON, JR., COUNSEL, ON BEHALF OF THE CALIFORNIA-ARIZONA CITRUS LEAGUE, SUN-DIAMOND GROWERS OF CALIFORNIA, CALIFORNIA ALMOND GROWERS EXCHANGE, CALIFORNIA RAISIN ADVISORY BOARD, CALIFORNIA PRUNE ADVISORY BOARD, TRI-VALLEY GROWERS OF CALIFORNIA, AND CALIFORNIA DRIED FIG ADVISORY BOARD

Mr. HERON. Thank you, Mr. Chairman and members of the committee.

In line with your suggestion, Mr. Chairman, the prepared statement will be summarized and——

Chairman GIBBONS. Everybody's statement will be included in the record in full.

Go ahead, sir.

Mr. HERON. Thank you, Mr. Chairman.

I appreciate the opportunity to discuss the GSP with your committee this morning. The testimony presented is on behalf of the California-Arizona Citrus League, Sun-Diamond Growers of California, the California Almond Growers Exchange, the California Raisin Advisory Board, the California Prune Advisory Board, Tri-Valley Growers of California, and the California Dried Fig Advisory Board. These organizations support H.R. 3581.

As this committee considers and reconsiders the program, it is important that the program's impact on both the U.S. agriculture and the economic development of the developing countries be carefully evaluated. It should be recalled that President Carter's 1980 report on the GSP program could not cite any benefit gained by developing countries from duty-free status for agricultural products. In practice, the GSP program has unfortunately abandoned the principles articulated by the United Nations, UNCTAD and the Congress in making an ever increasing number of agricultural products eligible for duty-free treatment.

When this program was initiated in 1975, approximately 300 out of the 2,700 products on GSP were agricultural. Since then, the percentage increase for agricultural products has been almost five times the increase for industrial products. Over 42 percent of the products added to the GSP list since 1980 have been agricultural. The inclusion of these agricultural goods has been a serious departure from the intended emphasis of the program, particularly as it was originally articulated by the administration.

Other developing countries have recognized that preferential status for agricultural products does not help diversify the economies of developing countries. The EC, for example, grants duty-free status to few agricultural commodities. Instead, only a small reduction in the duty is usually offered when there is anything offered at all. Some countries eligible for GSP in the United States are not granted comparable status for any product by the EC.

The number of agricultural products eligible for preferential tariff treatment is also limited by Japan.

We are not here today to advocate protectionism. The agricultural producers represented by this testimony are committed to worldwide trade liberalization. They have long been in the forefront of U.S. export efforts and have proven themselves capable of competing in foreign markets, as the chairman and the committee know,

because they often appear before this committee to testify in support of authority for trade negotiations and support improvements in section 301.

What we are seeking in H.R. 3581 is denial of GSP eligibility for agricultural imports, which means that most favored nation duty rates would be applied to agricultural items. I think we can readily agree that assessing the most favored nation duty rate can hardly be labeled protectionism. These imports would be fairly treated and would not be at a competitive disadvantage to imports from noneligible countries. It must be remembered that GSP eligibility often itself is inconsistent with the principles that the United States has advocated in international trade.

The program provides trade benefits to countries that have either closed their markets to exports of U.S. agricultural products, or have unfairly promoted their own agricultural exports through subsidies and other unfair trade practices.

By awarding these import benefits to those countries that penalize our agricultural exports, we encourage that type of unlawful trade practice that we have long worked to eradicate.

While the denial of GSP eligibility to agricultural products will not adversely affect agricultural exports from GSP beneficiary countries, it will give a needed boost to the American farmer. It must be recalled that none of these groups testifying today testified against GSP 10 years ago. The reason, of course, was that the then administration at that time assured everyone that it would only be a 10-year program to help those countries and then it would be stopped. Of course, today we find a different story. Therefore, the testimony is being presented.

Our farm community is faced with countless tariff and nontariff trade barriers, especially those in GSP-eligible countries. Given these hardships and their unfair practices, we should not ask U.S. agriculture to share its home market with over $700 million worth of yearly imports particularly from countries that may benefit from the unfair trade practices that make U.S. sales abroad difficult.

You gentlemen are completely familiar with the subsidies problems that are stopping U.S. agricultural exports. If U.S. sales are going to be stymied, then at least let's help the American farmer maintain his domestic market through fair competition with imported agricultural products.

H.R. 3581 would put a stop to that policy that imposes serious competitive hardships on U.S. farmers. Agricultural items were never intended to be given duty-free status in other than a highly selective manner. The experience of the developing countries demonstrates that duty-free treatment for agricultural products does not enhance their economic development.

The end result is that nobody benefits from a program while the American farmer is harmed.

For these reasons, we ask this committee and the Congress to pass H.R. 3581 and amend the GSP to exclude agricultural products from eligibility.

Let me just, in closing, try to put this in perspective in a different manner. If we are to extend GSP particularly on agricultural products, then we have taken away the benefits to the Caribbean

32-507 O—84——2

Basin that the administration and Congress have recently given them by putting everybody on an equal footing. If we truly want to help the Caribbean, they must be given a decisive advantage. The same is true of the proposed legislation for the United States-Israel free-trade area. If we extend GSP on a duty-free basis, there is no benefit to Israel. We have to put all these things into perspective.

The same is true if, as many are suggesting, we should enter a new round of multilateral trade negotiations or at least a north-south round of negotiations. What is there left to negotiate with, if the United States has removed its duties on products of interest?

If the Congress does decide to go ahead with the GSP program, it is hoped that this committee will closely examine the procedural aspects of the program because there are a great many abuses there that could be helped. At the present time, foreign countries seeking GSP benefits for any product are required to do very little in submitting their application. Many of the applications submitted do not even attempt to comply with the published procedures set forth in the Code of Federal Regulations.

On the other hand, the domestic industry must meet every line of those regulations and every precise point must be covered and then when the industry comes to the hearing, it is an adversarial hearing. The burden is shifted to the domestic industry to prove that the foreign country should not be granted GSP benefits, rather than the foreign country trying to justify GSP benefits. There needs to be a shift in this burden of proof.

The committee may wish to consider requesting a GAO study of the costs of operating the hearings. They take place every year. They are very time consuming to the domestic industry and to the Government, as well. The hearings are conducted through an interagency process with many agencies involved year after year, often reviewing the same product and reaching the same result.

A great deal of money could be saved, while the foreign interests are put to virtually no cost—whatever it takes to put in a couple pieces of paper. These reviews are expensive and time consuming and if the program is to continue, certainly there needs to be something done to shift the burden away from the domestic side to the foreign side. We see further abuses where some countries, particularly in the South and Central American area, will request products that they don't produce to appear to be a very tiny little country requesting an item for GSP, when in fact the appearance is that they are fronting for major producers that are their neighbors.

Thank you, Mr. Chairman and members of the committee. We hope you will consider these comments.

[The prepared statement follows:]

STATEMENT OF JULIAN B. HERON, JR., SENIOR PARTNER, HERON, BURCHETTE, RUCKERT & ROTHWELL

Good morning Mr. Chairman and members of the Subcommittee. I am Juian B. Heron, Jr., senior partner in the law firm of Heron, Burchette, Ruckert & Rothwell. It is a pleasure to be here with you this morning. I appreciate this opportunity to discuss with you the Generalized System of Preferences (GSP) as it relates to U.S. agriculture and H.R. 3581. My testimony this morning is on behalf of the California-Arizona Citrus League, Sun-Diamond Growers of California, the California Almond Growers Exchange, The California Raisin Advisory Board, the California Prune Ad-

visory Board, Tri-Valley Growers of California, and the California Dried Fig Advisory Board. These organizations support H.R. 3581.

Mr. Chairman, as this Committee and Congress reviews the GSP program, it is important that the program's impact on both U.S. agriculture and the economic development of beneficiary countries be carefully evaluated. In both respects, we believe that the GSP has strayed from the course Congress originally intended it to follow and has failed to achieve its intended goals.

The international bodies that first developed the GSP concept, the United Nations General Assembly and the United Nations Conference on Trade and Development (UNCTAD), recognized that developing countries' dependence on exports of primary products was deterring their trade growth. They realized that the economies of such nations were at the mercy of erratic world market price fluctations for these exports and, in the case of agricultural products, adverse weather conditions. It was thought that any further development of the agricultural sectors of developing nations would ultimately impede economic development by prolonging this dependence and by diverting financing from the manufacturing and industrial sectors. The U.N. and UNCTAD believed, moreover, that increased production of export oriented agricultural products could result in a shortfall of basic market basket commodities, requiring additional expensive imports. It should be noted that President Carter's 1980 report on the GSP could not cite any benefits gained by developing countries from duty free status for agricultural imports.

Another factor recognized by the U.N. and UNCTAD was that many developing countries were already competitive with developed countries in producing and marketing agricultural products efficiently. It was believed that this was particularly true for specialty crops, such as fruits, vegetables, and nuts. Advantages in labor costs for these and many other agricultural products requiring intensive cultivation ensured competitive access to U.S. and other developed country markets.

It was for all these reasons that President Nixon, in his message to Congress accompanying the first proposed GSP package, indicated that manufactured and semi-manufactured products were to be the principal beneficiaries of any GSP program.[1] The legislative history of the Trade Act of 1974 shows that the drafters also adopted the U.N. and UNCTAD rationale. They sought to avoid the wholesale inclusion of primary products under the GSP, recognizing that developing countries generally did not need assistance in marketing traditional agricultural commodities in the United States and that assistance to the agricultural sectors of these economies might ultimately hurt their economic development.

In practice, the GSP program has unfortunately abandoned the principles articulated by the U.N., UNCTAD, and the U.S. Congress by making an ever-increasing number of agricultural products eligible for duty-free treatment under the GSP. In 1975, when the GSP was initiated, approximately 300 out of 2,700 products were agricultural products. Since then, the percentage increase in eligible agricultural products has been almost five times the increase for industrial products. Over 42% of the products added to the GSP list since 1980 have been agricultural. The inclusion of agricultural goods to this degree is a serious departure from the intended emphasis of the program.

Other developed countries have recognized that preferential status for agricultural products does not help diversify the economies of developing countries. The European Economic Community grants duty-free status to few agricultural commodities. Instead, only a small reduction in the duty is usually offered. In fact, some countries eligible for GSP status in the United States are not granted comparable status for any products by the Community. The number of agricultural products eligible for preferential tariff treatment is also limited by Japan.

Mr. Chairman, we are not here today to advocate protectionism. The agricultural producers represented here today are committed to world-wide trade liberalization. They have long been in the forefront of U.S. export efforts and have proven themselves capable of competing in foreign markets. What we are seeking in H.R. 3581—a denial of GSP eligibility for agricultural imports—would simply mean that Most Favored Nation (MFN) duty rates would be applied to these items. Assessing the MFN duty can hardly be labeled protectionism. These imports would be fairly treated and would not be at a competitive disadvantage to similar imports from non-eligible countries.

It must be remembered that GSP eligibility often is itself inconsistent with the principles that the United States has pursued internationally for many years. The program provides trade benefits to countries that have either closed their markets to exports of U.S. agricultural products or have unfairly promoted their own agri-

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[1] H.R. 6767, 93rd Cong. 1st Sess., Part 1 of 15, at 116 (1973).

cultural exports through subsidies and other unfair trade practices. By awarding these import benefits to countries that penalize our exports, we encourage the type of unlawful trade policies that we have long worked to eradicate around the world.

While the denial of GSP eligibility to agricultural products will not adversely affect agricultural exports from GSP beneficiary countries, it will give a needed boost to the American farmer. Our farm community is faced with countless tariff and non-tariff trade barriers, especially those in GSP eligible countries. Given these hardships, we should not ask U.S. agriculture to share its home market with over $700 million worth of yearly imports, particularly imports from countries that may benefit from the same unfair trade practices that make U.S. sales abroad difficult. If U.S. agricultural sales abroad are being stymied, then at least let us help the American farmer maintain his domestic markets through fair competition with imported agricultural products.

In short, H.R. 3581 would put a stop to a policy that imposes serious competitive hardships on U.S. growers. Agricultural items were never intended to be given duty-free status in other than a highly selective manner. The experience of the developing countries demonstrates that duty-free treatment for agricultural products does not enhance their economic development. The end result is that nobody benefits from the program while the American farmer is harmed.

For these reasons, we ask this Committee and Congress to pass H.R. 3581 and amend the GSP to exclude agricultural products from eligibility under the program.

Thank you for this opportunity to appear before you. I would be happy to answer any questions you may have.

Chairman GIBBONS. Mr. Russell.

STATEMENT OF RANDY M. RUSSELL, VICE PRESIDENT, AGRICULTURE AND TRADE POLICY, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. RUSSELL. Thank you, Mr. Chairman.

I am Randy Russell, vice president of agriculture and trade policy for the National Council of Farmer Cooperatives.

The National Council is strongly supporting H.R. 3581 introduced by Mr. Thomas and Mr. Matsui, which exempts these products from eligibility under GSP. We do for three basic reasons.

First of all, the original intent of the authorizing legislation was to include agricultural items under GSP in only special circumstances. However, in recent years, a majority of these items added to the GSP list have been agricultural products.

Two, many of the beneficiary developing countries under GSP are limiting or prohibiting imports of U.S. agricultural products.

And three, the product requests made by developing countries have increasingly burdened U.S. agriculture at a time when agricultural exports are declining and net farm income remains at very low levels.

I would like to spend just a minute or two focusing on point two. That is, that the major GSP beneficiaries are those that pursue protectionist policies toward U.S. agricultural commodities. The use of nontariff trade barriers and export subsidies have become so pervasive that U.S. producers have been limited or all together excluded from traditional markets.

Mr. Chairman, I would like to cite two examples of countries currently under GSP.

Taiwan is the first one. They continue to heavily subsidize rice exports into third-country markets which directly compete with U.S.-produced rice. In 1983, Taiwan's rice exports reached 850,000 metric tons compared to just 307,000 in 1982, and just 29,000 metric tons in 1981.

This dramatic increase in rice exports has been directly related to their exports program where subsidies can reach as much as $400 a ton. The estimated U.S. export value loss due to Taiwan's rice export subsidies is over $300 million.

As you know, Mr. Chairman, Taiwan in 1982 exported under $2.3 billion in products to the United States under the GSP program.

Another example is Brazil. It continues to heavily subsidize both poultry and soy product exports into third-country markets. In 1964, the U.S. share of the Middle East whole chicken market was 44 percent. By 1982, the U.S. share fell to less than one-half of 1 percent. This dramatic decline in the U.S. market share is directly linked to both the direct and indirect subsidies provided the Brazilian industry.

USDA estimates that the total subsidies to the Brazilian poultry industry are now around $125 a metric ton.

U.S. farmers are not asking for similar programs. However, they do request that preferential access for agricultural products coming into the United States not be permitted when other developing countries do not allow it and when developing countries prevent U.S. access to their markets.

In conclusion, I would like to say that unilaterally granting duty-free access to countries who continue to use unfair trade practices only encourages these countries to continue their unfair practices. A continuation of these practices will lead to further declines in U.S. agricultural exports, and producer income. For these reasons, Mr. Chairman, it is important that agricultural products and by-products be excluded from eligibility for duty-free status under the GSP.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF RANDY M. RUSSELL, VICE PRESIDENT, AGRICULTURE AND TRADE POLICY, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. Chairman, my name is Randy Russell and I am Vice President of Agriculture and Trade Policy for the National Council of Farmer Cooperatives. The National Council is an association of cooperative businesses which are owned and controlled by farmers. Our membership consists of regional marketing and farm supply cooperatives, the banks of the cooperative Farm Credit System, and state councils of farmer cooperatives. The National Council represents about 90 percent of the more than 6,400 local farmer cooperatives in the nation, with a combined membership of nearly 2 million farmers.

I appreciate the opportunity to testify this morning regarding the reauthorization of the Generalized System of Preferences. As you know, Mr. Chairman, the GSP, which allows for duty-free imports into the United States from designated developing countries, is authorized under Title V of the Trade Act of 1974. The authority for the GSP program is for 10 years ending January 3, 1985. Duty-free imports under the program have grown from $3.2 billion in 1976 to $8.4 billion in 1982. Specifically, duty-free agricultural imports under GSP increased from $550 million 1976 to $1.25 billion in 1981.

The National Council strongly supports H.R. 3581, introduced by Congressman William Thomas, which exempts agricultural products and by-products from eligibility under GSP. The Council supports H.R. 3581 for three basic reasons:

(1) The original intent of the authorizing legislation was to include agricultural items under GSP in only special circumstances. However, in recent years a majority of the items added to the GSP list have been agricultural products.

(2) Many of the beneficiary developing countries under GSP are limiting or prohibiting imports of U.S. agricultural products.

(3) The product requests made by developing countries have increasingly burdened U.S. agriculture at a time when agricultural exports are declining and net farm income remains at levels only previously experienced in the 1930's.

I would like to spend a few minutes reviewing each of these points in more detail.

GSP NOT TARGETED FOR AGRICULTURAL PRODUCTS

Congress originally enacted the GSP program in order to help beneficiary developing countries increase their exports, diversify their economies and reduce their dependence on foreign aid. President Nixon's April 10, 1973 Message to Congress proposing Trade Reform Legislation stated that "this legislation would allow duty-free treatment for a broad range of manufactured and semi-manufactured products and for a selected list of agricultural and primary products which are now regulated by tariffs." The thrust of the program was clearly in the area of manufactured products. Its intentions were to encourage developing countries to establish industrial complexes that would help build their economies. In most cases, developing countries have well established agricultural sectors and it is clearly unnecessary to provide them preferential treatment through the GSP.

However, the operation of the GSP program has contrasted sharply with the congressional intentions for it. In his five year report to Congress in 1980, President Carter indicated that a total of 82 items had been added to the list of eligible products by March 1, 1979. Forty-four of those items, or 54 percent, were agricultural products. In 1981, 52 percent of the items added to the GSP list were agricultural products, while in 1982, 34 percent of the new items were agricultural products. In the product additions announced last April, 12 of the 26 products, or 46 percent, were agricultural items.

UNFAIR TRADE PRACTICES OF GSP COUNTRIES

The major GSP beneficiary countries are often those who pursue protectionist policies towards U.S. agricultural commodities. The use of non-tariff trade barriers and export subsidies have become so pervasive among eligible GSP countries that U.S. producers have been limited or altogether excluded from traditional markets. Examples of this are readily available:

Taiwan.—Continues to heavily subsidize rice exports into third country markets which directly compete with U.S. produced rice. In 1983, Taiwan's rice exports reached 850,000 metric tons, compared to 307,000 tons in 1982 and 29,000 tons in 1981. This dramatic increase in rice exports has been directly related to their export subsidy program, where subsidies can reach as much as $400/ton. The estimated U.S. export value loss due to Taiwan's rice export subsidy program is over $300 million.

In addition, Taiwan imposes a 35 percent duty on U.S. turkeys, a 65 percent duty on dried eggs and recently moved to double duties on frozen orange concentrate.

Korea.—Imposes a burdensome administrative licensing system in an effort to limit imports of U.S. almonds. In addition, the duty on imported almonds was increased from 40% ad valorem in 1982 to 50% ad valorem in 1983.

Brazil.—Continues to heavily subsidize both poultry and soy product exports. In 1964, the U.S. share of the Middle East whole chicken market was 44 percent. By 1982, the U.S. share fell to less than 0.5 percent. This dramatic decline in the U.S. market share is directly linked to the direct and indirect subsidies provided to the Brazilian poultry industry. USDA estimates that total subsidies to the Brazilian poultry industry were $125/metric ton in 1982.

In the case of soy products a similar situation has occurred. In 1974, the U.S. supplied 78 percent of the world soybean meal market, with Brazil supplying the remaining 22 percent. By 1981, the U.S. share had fallen to 39 percent, while Brazil's share increased to 55 percent.

In soybean oil, Brazil was not a supplier in 1973–74, while the U.S. supplied 64 percent of the world market. By 1981, Brazil had jumped to 45 percent of the world soybean oil market, while the U.S. share fell to just 24 percent.

Brazil has employed a complex system of tax incentives, subsidized financing, price controls, quotas, export rebates, and income tax controls to build an industry that now dominates the world soybean oil and meal markets.

Argentina.—In order to stimulate exports, the Government of Argentina has instituted a system of direct and indirect taxes which are rebated to exporters. Concentrated apple juice, soy products, prunes, and grape juice are some of the major products which have benefited from the subsidy program. In addition, long-term interest-free loans and liberal pre-export financing has allowed Argentine exporters to move

many of these products into third country markets and compete unfairly with U.S. products.

U.S. farmers are not asking for similar programs, however they do request that preferential access for agricultural products coming into the U.S. not be permitted when other developing countries do not allow it and when developing countries are preventing U.S. access to their markets.

DEPRESSED U.S. AGRICULTURAL ECONOMY

The agricultural sector has faced low farm prices, rising costs of production and low net farm income for the past three years. Net farm income declined from $30.1 billion in 1981 to $23 billion in 1983.

A major reason for the low net farm income over the last three years has been the dramatic decline in U.S. agricultural exports. The gross value of U.S. agricultural exports in 1983 was $34.5 billion, a decline of almost $5 billion from the 1982 level and $9 billion below the 1981 level. In addition, the volume of U.S. agricultural exports declined in 1983 from 162 m.m.t. to 145 m.m.t. A number of important factors led to this dramatic change in the export situation.

Increased Foreign Production.—Since the 1981/82 marketing year total grain production outside of the U.S. (course grains, wheat and rice) has increased over 100 m.m.t. The major increase in foreign production over this two year period took place in wheat, increasing 45 m.m.t.

Worldwide Recession.—The depressed world economy has dampened growth in the demand for agricultural products, particularly in the high and middle income countries. As an example, during the 1970's the developed countries experienced a real economic growth rate of 4.5 percent, compared to just 0.6 percent in 1982 and 2.1 percent in 1983.

Exchange Rate Effects.—Over the past two years, the value of the dollar against other major currencies has increased by roughly 20 percent. It is estimated that these increases have caused a loss in exports valued at $6.7 billion.

Financial/Credit Difficulties.—Many of the countries currently experiencing creditworthiness problems represent some of our most important customers. For example, entering 1984 Mexico and Brazil are each facing foreign debts totaling $90 billion, while Poland faces debts of $30 billion and Venezula a $20 billion foreign debt.

Competitors Use of Export Subsidies.—Aggressive use of agricultural export subsidies by the European Community and Brazil, have led both to become major contenders for world markets. In the case of Brazil and the EC, export subsidies are used to dispose of surplus stocks generated by high internal support prices.

USDA estimates that this dramatic decline in both the value and volume of U.S. agricultural exports has been the overriding factor in the decline of net farm income over the last three years.

Mr. Chairman, unilaterally granting duty-free access to countries who continue to use unfair trade practices both domestically and in third country markets only encourages these countries to continue their unfair practices. A continuation of these practices will lead to further declines in U.S. agricultural exports and producer income.

Mr. Chairman, for the foregoing reasons, it is important that agricultural products and by-products be excluded from eligibility for duty-free status under the Generalized System of Preferences.

Chairman GIBBONS. Thank you.

Let me ask you a few questions about this. Mr. Matsui and Mr. Thomas both said that they are not against free and open trade, and I accept their position on that.

Mr. Russell, you cited specific examples of countries that discriminate against us by their subsidized exports and to which we grant GSP treatment. You cited Brazil and its export of chickens, and what else?

Mr. RUSSELL. Soy products.

Chairman GIBBONS. Soy products. I am familiar with the charge about their exportation of chickens; are they subsidizing soy products? I am just not aware.

Mr. RUSSELL. Yes. In the case of soy products, somewhat of a similar situation occurred. In 1974, the United States supplied 78

percent of the world's soybean meal products with Brazil supplying 22 percent. By 1981, the U.S. share had fallen to 39 percent while Brazil's share increased to 55 percent.

Chairman GIBBONS. Is that due to subsidies?

Mr. RUSSELL. Yes. They have a series of export rebates that take place both in Brazil and in some other countries. Brazil has now become a major competitor in the world soybean market, both meal and oil.

Chairman GIBBONS. I am not familiar with the Brazilian tax system. Are they rebating a value added tax or sales tax, or rebating something else?

Mr. RUSSELL. It is a system, Mr. Chairman, of export rebates and income tax controls that have helped to build up the industry from a domestic standpoint, which is highly competitive with the United States now.

Chairman GIBBONS. Has our soy industry attempted a section 301 case?

Mr. RUSSELL. Yes.

I would like to defer to Mr. Heron.

Mr. HERON. Thank you, Mr. Chairman. I am counsel to the National Soybean Processors Association, which did bring a 301 case against Brazil, Argentina, Spain, Portugal, Malaysia, and Canada for the severe erosion of our exports.

In the case of Brazil, there are approximately five major programs and a number of lesser programs that subsidize soybean products, both meal and oil, and force them onto the world market both to the disadvantage of the United States, other soybean producers, and at least from our perspective to the great disadvantage of Brazil. They hurt themselves very badly by passing through very low cost soybeans to other consuming countries, which it is not necessary to do and would not occur in the absence of the subsidy.

So Brazil itself would be far better off in terms of revenue to the country of Brazil without those programs.

Chairman GIBBONS. What was the outcome of that section 301 case?

Mr. HERON. It is currently pending. The United States has held consultations with Brazil, Spain, and Portugal. Consultations with Argentina are occurring as we sit here. Consultations with Malaysia have not yet occurred.

The case was not totally accepted. The major portion of the case that was not accepted dealt with export taxes, which at first blush may seem to be a benefit to tax the exports, but in fact are the most effective subsidies any country can put on its products. And Brazil, Argentina, and Malaysia use export taxes extremely effectively. STR would not accept that in the petition.

We are continuing to work with them and hope someday they will.

Chairman GIBBONS. I don't want to get into a section 301 hearing, but of course that is something we are going to get into perhaps this year. So I don't mind you explaining a little more about what the Brazilians did.

You said this is a very effective form of subsidy?

Mr. HERON. The export tax. If the tax on all exports were at the identical level, then it would have no benefit other than possibly to

hold the goods in the country. But when the tax is at a different level for various forms of the same product—in the case of Brazil, the export tax on raw soybeans is at the highest level; it is at a lower level for meal and an even lower level for oil—the effect of that is to hold the raw beans in the country forcing the price of the raw beans down, giving it to the Brazilian crusher at a lower price. He then turns around and exports the meal and oil at far lower prices than would otherwise occur because of the overall product input.

The same occurs in Argentina. In a short time, they have become a major soybean oil and meal exporter. And in Argentina, it is easier to see, because the only program in Argentina is the export tax and it just forces the processed product on to the world market at a very rapid rate.

Here, in the United States, we recognized the effectiveness of it in the very beginning of our country and put in our Constitution that there would be no export taxes just for that reason. It is the most effective form of subsidy that anybody has invented.

Chairman GIBBONS. I don't want to put words in anybody's mouth, but you seem to be advocating—the three of you, and Mr. Thomas, and Mr. Matsui before you—a form of reciprocity type negotiation with these countries.

Am I reading you correctly?

Mr. HERON. Certainly, we would encourage continued negotiations, and hopefully the result of that would be some type of reciprocity. We just don't believe—and we are certainly convinced in the case of agriculture—that there is any benefit to U.S. agriculture by rewarding countries that continue to discriminate against the United States, take our markets through unfair subsidies, and preclude us from subsidizing to their markets—excuse me, not—preclude us from exporting to their markets.

No one can disagree with the fact that there is a policy objective of increasing the economies of all these countries. We have to do that. But to do it in a fashion that rewards them for improper practices and disadvantages in the long run has to lead to a far weaker agriculture and weaker economy in the United States, and that is not good policy.

Chairman GIBBONS. How long has your 301 action been going on?

Mr. HERON. In the case of soybeans, we are approaching about 9 months. I have to say in all honesty, it is not one of the long, drawn-out ones yet. Some day I may come back and advise you differently. But at the present time, it is moving along as it should.

Chairman GIBBONS. Do you have any target as to when you expect a decision?

Mr. HERON. No, because none of the cases against the individual countries have progressed to the point where they are even at the panel stage. I will say that we already have received some benefits. One of the original countries against which the 301 was brought was Canada, and Canada has removed its practices on rape seed either entirely or in the process of phasing them out. So there is a benefit there.

Argentina has narrowed the spread of their export taxes, but because of devaluation the effect has not changed. But at least there has been some movement.

Brazil claims that it has eliminated two of its subsidy practices. The reason I say "claims" is that they allege they were eliminated at a time they were out of soybean products, so it was easy to say they were eliminated. We won't know until next season whether or not they have been eliminated or replaced.

Chairman GIBBONS. Well, Mr. Schulze and then Mr. Pease and then Mr. Frenzel, and I will excuse myself a moment.

Mr. SCHULZE. I have no questions, Mr. Chairman.

Go ahead, Mr. Pease.

Mr. PEASE. Mr. Russell, a question that is just tangential to what you were testifying on. We had a hearing yesterday on tightening up our trade remedy laws. One of the considerations was compressing the schedule for the consideration of antidumping or subsidy cases.

Do you have experience with the Commerce Department and ITC which would lead you to give us some advice as to whether the statutory schedule could be successfully collapsed?

Mr. RUSSELL. Mr. Pease, really we have not as an organization had a lot of experience in that area. We are a general farm organization. We have not handled a lot of the individual cases.

Julian might be able to comment because he has handled individual cases.

I would comment, though, if I could, Mr. Pease, regarding the administration of the GSP program. There are seven criteria currently used to judge eligibility of a country. We were encouraged somewhat to see that the administration is going to put increased emphasis on two of those factors, one of which is whether a country provides adequate market access to U.S. exports.

The problem is that since 1981 we have seen that 52 percent of the items added to GSP were agricultural items. In 1982, 34 percent were agricultural items. In 1983, 46 percent were agricultural items.

I guess the point is that the track record of this administration in terms of the types of items that they are adding to the list unilaterally under this program have been to the detriment of agriculture. That is the kind of problem we are looking at. We need some assurances that there is going to be some negotiation on a reciprocal basis rather than a unilateral extension of the duty-free access.

Mr. PEASE. Apropos of that, I understand your support is for H.R. 3581, which excludes agricultural products altogether.

Mr. RUSSELL. Yes.

Mr. PEASE. Whether or not there is any injury to the domestic industry?

Mr. RUSSELL. Mr. Pease, at this time we continue to support Mr. Thomas' bill. That is not to say at some point we would not be willing to work with the administration and the Congress on the procedures by which some countries and commodities are added to the list in the future.

But, again, I think the major point is that the history over the last 3 or 4 years has proven to American agriculture that the administration's program has not necessarily worked to the benefit of the agricultural sector.

Mr. PEASE. Mr. Heron, could you comment on the antidumping and subsidy timetable question?

Mr. HERON. Yes, sir.

That is a difficult area, for several reasons. Let me just state my own biases in the beginning so you would be able to have that for the answer.

In the whole area of international trade, I believe it would be preferable not to have time limits primarily because we are dealing with sovereign powers, and there are many things we just can't legislate on that. What we have to do in a policy sense is create an environment where it is to their advantage to move to free trade, and until we create that environment there is simply a situation where they will not do it, and they really shouldn't because there is no reason for it.

Now, in antidumping and countervailing cases, the current time limits were really put in large part because of past abuses where there were difficulties in moving a case forward. The same is true on 301. Originally, there were no time limits. There were abuses; time limits came in. So it is a method at getting at a problem.

With some of the very large major cases being filed under those laws now, it is very difficult to meet those time limits. I don't want to defend the agencies, but it is just a fact that they do have trouble. In some smaller cases, there is no reason they couldn't be done in half the time.

So I know that is not very helpful, but it really depends on the case. I know of cases where submissions of various items were rejected because the agency simply said, "We don't have time to read it and we are not going to get held with not having read it by accepting it," and they find a technical reason to reject it. That is an abuse that should be corrected, but shortening the time won't correct that.

Extending the time limit won't help a small case that just can't get resolved. When I say large and small cases, I don't necessarily mean the number of products or the dollar value, but sometimes there is a huge amount of paperwork and sometimes there is not much.

Mr. PEASE. Thank you very much.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

Mr. Frenzel.

Mr. FRENZEL. Thank you very much for your testimony. I am sorry I was not here to hear all of it.

What I understood was that the intent of the bill you support is to protect American agriculture from unfair practices from abroad; is that correct?

Mr. HERON. Well, we hope that that would be one of the effects. I don't believe that the bill itself protects American agriculture from an unfair trade practice, but it would prevent the United States from rewarding countries engaged in unfair trade practices.

Mr. FRENZEL. I am glad you made that clarification because in the testimony that I heard we were criticizing countries who were indulging in unfair trade practices, which I thought were covered by other kinds of relief actions such as the ones you are now involved in.

Actually, the bill doesn't say anything about unfair practices.

Mr. HERON. That is correct.

Mr. FRENZEL. What it says is we can't give GSP for anything that is competitive.

Mr. HERON. That is correct.

Mr. FRENZEL. It strikes me as being quite different from what you said, or perhaps it was simply the stress you placed on the unfair.

You wouldn't want to modify it to cover unfair practices?

Mr. HERON. Certainly, that would be something to be considered carefully, and we did consider that at the outset. And with the experience of knowing how the program is operating and the burden and expense put on domestic industry to fight on the foreign side, we thought the best way to approach it was simply not to have GSP for agricultural products; and if any country producing agricultural products wants better access to the United States, they could come and negotiate.

Mr. FRENZEL. Do you know of any country that doesn't give agriculture preferred status?

Mr. HERON. I am not sure precisely what is meant by "preferred status."

Mr. FRENZEL. That doesn't subsidize agriculture. I am trying to phrase it euphemistically to describe what we do in this country. Including the United States, do you know of a country that doesn't?

Mr. HERON. No.

I would certainly agree with the intent of the thought.

Mr. FRENZEL. What would happen if other countries wanted to restrict our access? It would be kind of tough for agriculture.

Mr. HERON. It would, but that occurs regularly today.

Mr. FRENZEL. It does, and yet we sell a fair amount abroad. And we are sure looking to sell more, aren't we?

Mr. HERON. Hopefully, that is correct.

Mr. FRENZEL. Hopefully, anyway.

I have some problems in this bill, because it seems to be indiscrete in that it takes in everybody—the good, the bad, the rich, and the poor. Certainly, we have problems with some of the GSP recipients, particularly the ADC's or however you choose to describe them. We are constantly involved with some of them in trying to understand why they can't accept some of our products.

I guess we got a problem now—always had problems with Korea, and specifically they don't seem to like our chocolates, even when it is wrapped around your wonderful California almonds.

Mr. HERON. That is true.

Mr. FRENZEL. And we got a problem with cigarettes in the Orient. I don't mean to bang on Korea, but it is a convenient example.

Your bill doesn't get at the people who deny us access or subsidize against us competitively. I suspect if we are going to do a subsidy game, we would have to do a relative subsidy game and balance theirs against ours.

Mr. HERON. That would be one way to look at it. But, of course, our subsidies are directed internally and removes the product from the world market; whereas, their subsidies force the goods on to the world market. And then in the case of the EC, it is particularly

adverse because it hurts the developing countries the most—and it hurts us. But it hurts some of the other smaller countries the most.

Your earlier point is really the heart of it. If GSP were for truly developing countries—Bangladesh, Zaire, and so on—there wouldn't be any problem.

Mr. FRENZEL. You wouldn't have any problem because you wouldn't have any imports.

Mr. HERON. That is absolutely correct.

Mr. FRENZEL. Thank you very much.

Mr. HERON. Thank you, Mr. Frenzel.

Mr. MCGRATH. If I could add one thing to clarify the record, I am appearing on behalf of the Florida citrus industry, and the FCM has not taken an active position in support of H.R. 3581.

While we are in sympathy with many of the things that the supporters have stated today and agree with many of the principles involved, I can only speak for Flordia Citrus Mutual at this time and can only state that we do not oppose this legislation.

Chairman GIBBONS. I am glad you pointed that out. Of the three panel members, your client is not in support of—not opposed to, but not in support of the Matsui-Thomas legislation; is that correct?

Mr. MCGRATH. Yes.

I don't mean that to sound like a statement from the administration on miscellaneous tariff bills.

Chairman GIBBONS. Sure.

Let me ask you—we have a group of knowledgeable people before us so I am fishing around here, and if you don't want to answer any of these questions, you don't have to. Obviously, we have a problem with this concept of reciprocity. I don't know where the votes are on this committee or in the Congress or anyplace else on GSP renewal. We can't walk away from it, but we won't be able to pass it in the same form it was in in the past.

Based upon your experience—and not reflecting the views of your clients—but just based upon your experience, would it be appropriate for Congress to perhaps grant to the USTR and to the President through the USTR, or however we do it, the authority to negotiate in the agricultural area and give certain aims to accomplish, such as elimination of burdensome subsidies, opening their markets on some kind of fair basis? Would that be a wise thing to do based upon your experience?

I am not asking you to reflect the views of your clients; just your personal views.

Mr. HERON. Certainly, Mr. Chairman.

My view is that it would be, and that the trade negotiator really ought to have negotiating authority, significant negotiating authority on a continuing basis. Without it, what he can accomplish is severely limited, whoever it happens to be.

On the other side—of course there is the problem and concern on the domestic side—well, we are going to get out-negotiated. That is a real concern. But if we are not prepared to lose, we can't win. If we continue in a defensive posture, it has got to build up the protectionist forces because we are not making progress on the export side.

Chairman GIBBONS. Well, we are going to have to do something on this legislation this year. If any of you have any suggestions of what we can do in a positive way, we would appreciate them.

I don't know how we can completely eliminate agriculture from GSP if we included the industrial side, and if we didn't include industrial and eliminated agriculture there would be no sense in having legislation, because there would be a nullity there. Yet, I don't see that America can walk away and just say we are not going to have anything at all to do with the lesser developed countries. So we need the best of your thoughts as to how we can get there.

Do any of you have any suggestions of what we could do reasonably?

Mr. HERON. One thing that the Congress might wish to consider—because I basically agree with your comments, Mr. Chairman—is our GSP program goes way beyond the GSP programs of the Europeans and Japan. If we were to bring our GSP program back to their program, at least we would not be so far out in front. And we still have the basic policy question, one of helping developing countries; but second, of continuing agricultural exports on a strong basis. Those two often come in conflict.

When we have removed our duties, there is no incentive for those foreign countries to act favorably for us. Some people call the GSP a carrot, and if we hold it out there they will give in, so they don't lose GSP. But we have 10 years of experience, and that has not been the case. So we need to make a change in it.

And, again, I come back to the earlier point: If we truly want to help the Caribbeans, we have to structure it in such a way that they are benefitted, because GSP takes away what we just gave the Caribbean area.

Chairman GIBBONS. I have to say I had the same, and still have the same, misgivings that you just voiced about giving GSP. It does discourage people from negotiating to lower barriers, generally. I am worried about that.

It was 10 or 12 years ago when we debated it here and I voiced my opinion at that time of my skepticism about GSP. But it is something that politically around the world I don't know how we can just walk away from the lesser developed countries and say we can't do something. We would run into a real political international firestorm if we didn't try to do something to help bring them up in their standard of living.

We have to recognize we are dealing with countries whose standard of living is one-thirteenth of ours—so small they can't even be compared in many instances. So we have got a problem there, but it is obvious that the current law is not very popular with anybody except a few of the rather developed countries that we have.

There we have a mixed bag. We have Korea, with a lot of subsidies and a lot of protection, and Hong Kong, with no subsidies and no protection—both of them in the same boat, so to speak. We have the Singapores, with no subsidies and no protection, and we have Taiwan, with lots of subsidies and protection. We are treating them all roughly the same, which doesn't make any sense. We are not—you know, we are not encouraging the Taiwans and Koreas to go

the direction of the Hong Kongs and Singapores, which I think is the appropriate way for them to go.

That is a choice they will have to ultimately make, but that is just my opinion.

Mr. RUSSELL. Mr. Chairman, just one comment.

I agree wholeheartedly with what you said. Also, we in the agricultural community recognize that a lot of the beneficiary countries under GSP are major agricultural markets for the United States. I think we exported something like $13 to $14 billion last year to GSP beneficiary countries.

The key point, though, is that we recognize that these countries have to export in order to gain foreign exchange so they can buy our agricultural products. We recognize that. We highly value that. At the same time, we need to have some leverage with them when we grant this duty-free access to our market, and we feel that we ought to use that leverage to gain some reduction in these important barriers.

Mr. HERON. If we were saying stop the imports, the committee ought to throw us out of here. We are not saying that. We are simply saying put them on an MFN basis because they are still at that level going to be trading on an equal basis. They may be equal at 10 rather than zero, but they have the same opportunities.

The four countries you mentioned, just to bring it to one agricultural product, Hong Kong is the largest export market in the world in terms of per capita consumption for fresh oranges. Each individual in Hong Kong, when you figure it, eats half a carton of oranges a year. It is amazing. Singapore is a large market.

Chairman GIBBONS. I wondered why they were so productive over there.

Mr. HERON. That is right.

Korea and Taiwan, on the other hand, where there is strong demand for fresh oranges, are virtually impenetrable. We do get a few into Taiwan; virtually none into Korea. But those are markets, all four, benefitting from GSP—two of them superb agricultural markets, at least in this one commodity, and two are poor markets, in spite of demand.

We need to only look to the south to our good neighbor, Mexico, that has the potential of a good market for United States agricultural commodities, particularly fruits and vegetables. We can't get in now. The United State is a good market for them and for us.

So trade needs to be opened up. Everybody will be better off, as a result. But simply giving away the duties doesn't accomplish that.

Chairman GIBBONS. I have a suspicion that the IMF is much more influential in international trade than the GATT and any agreements we have, and of course that is going to be the subject or a part of the subject of some of our hearings we expect to hold in March.

I am aware of the fact that our exports to Mexico have dropped off by about $7 billion in one year, and it was a pretty restricted market anyway prior to that. So that is quite a burden for the Mexican consumer who is not overburdened with these products anyway.

Mr. HERON. That is right.

Chairman GIBBONS. Maybe we have preferred the money lenders over producers in our society. And that will be part of our line of questioning with the International Monetary Fund.

Mr. HERON. On the issue of Mexican trade—as I am sure you know, statistics show it is increasing. But legitimate business is not participating in it.

Chairman GIBBONS. I don't understand that.

Mr. HERON. Well, in some commodities, where the demand in Mexico is strong, the commodities go into Mexico. If you examine statistics, it shows no trade. But the trade is there. It is simply by very small folks willing to do whatever is necessary to get it into Mexico, and the other larger companies won't participate in that trade.

Chairman GIBBONS. You mean there is a little bootlegging across the border?

Mr. HERON. That would be one way to describe it.

Chairman GIBBONS. That is interesting. Being a law-abiding person, I didn't know those things went on.

Any other questions? If not, thank you very much.

Mr. HERON. Thank you, Mr. Chairman.

Chairman GIBBONS. American Association of Exporters and Importers, Mr. Parsons.

STATEMENT OF W. HENRY PARSONS, CORPORATE MANAGER OF CUSTOMS, GENERAL ELECTRIC CO., AND CHAIRMAN, GENERALIZED SYSTEM OF PREFERENCES COMMITTEE, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS, ACCOMPANIED BY STEVEN KERSNER, COUNSEL

Mr. PARSONS. Thank you.

Chairman GIBBONS. Your entire statement will be included in the record, Mr. Parsons. Go right ahead. You may proceed as you wish.

Mr. PARSONS. I am Henry Parsons. I am the chairman of the Generalized System of Preferences Committee of the American Association of Exporters and Importers. I am accompanied today by Steven Kersner, Esq., of Stein, Shostack, Shostack & O'Hara, a member of my committee here in the place of Mr. Lande, whose name appears in my testimony.

We are a nationwide nonprofit association representing some 1,400 importers and exporters. American exporters and importers see it as imperative that the U.S. generalized system of preferences be renewed, liberalized and enlarged to include more products. The GSP has helped beneficiary countries become our important customers and has thus generated its own reciprocity.

I should like to address one of the proposals of the administration that the competitive need limitations be reduced upon a determination that the beneficiary developing country, and I quote, "has demonstrated a sufficient degree of competitiveness relative to other beneficiary developing countries in respect of any eligible article."

While it would be inappropriate to reduce the competitive need limits at all, it would be even more inappropriate to do so based solely on the consideration of a BDC's competitiveness versus other

beneficiary countries. In any decision which affects a BDC's eligibility for GSP with respect to a given product, the United States should continue to take into account the beneficiary's overall competitiveness in the particular product. That is to say, its competitiveness vis-a-vis the industrialized countries must be taken into account.

Therefore, we respectfully urge your committee to insure that any proposed legislation emanating from your committee and these hearings should not use the wording "competitiveness relative to other beneficiary countries," but rather competitiveness relative to the industrialized countries. To do otherwise would, in many cases, drive the particular trade back to the industrialized countries.

I would also like to address a proposal regarding the rules of origin, and this proposal has been put forth by our association and by others. We propose that the GSP law, any new GSP legislation, should in rules of origin incorporate a redefinition of the 35-percent local content qualifier, particularly U.S. inputs, specifically U.S. materials, U.S. fabricated parts, et cetera, as well as, U.S. engineering, research and development, design, et cetera, should be counted in the 35-percent local qualifier regardless of whether those elements are sold or provided free of charge to the beneficiary country manufacturer.

This proposed change would be consistent with the longstanding positions of other GSP donor countries who recognize input from their own countries as includable in the local content qualifier for their generalized system of preferences; for instance, Japan, Canada, and others. We promote this change not because other countries embrace it, but because it is the smart thing to do.

We are not proposing a mandatory U.S. content in any circumstances. In fact, we reject the concept of a mandatory U.S. content. It would engender resentment, particularly from those able to exceed the 35-percent BDC minimum content but unable to substitute United States for third-country input.

There should be an incentive for voluntary use of U.S. materials. It is a fact that an eligible article which is 33⅓ percent by value from a BDC, 33⅓ percent by value from the United States and 33⅓ percent by value from Japan, would qualify for duty-free entry into Japan but not into the United States. On that same product, substitute the 33⅓ U.S. value with 33⅓ percent Canadian value, and the same article would qualify for duty-free entry into Japan and Canada. Many permutations of these examples could be cited, all of which prove that the BDC manufacturers find an incentive in using non-U.S. materials and a disincentive in using U.S. material.

American exporters ask that this anomoly be corrected. American exporters want an opportunity to sell to manufacturers in the BDC and to establish ongoing relationships which might well carry on long after the GSP has served its purpose and taken its place in history.

The report to the Congress on rules of origin transmitted last year by the U.S. Trade Representative pursuant to section 305(c) of the Trade Agreements Act of 1979 described, among other things, the rules of origin of the other donor countries and also the USGSP rules of origin. Nowhere does the report mention that the other

GSP donor countries, including Japan and Canada, without qualification recognized content from their own countries as includable in the local BDC qualifier.

But here it is, Mr. Chairman, clearly stated in the laws of Japan. And I have appended as exhibit A a copy of the English language version of the portion of the Japanese law recognizing their own input as counting towards the local content qualifier.

The association respectfully suggests that the new legislation should contain an amendment to 503(b)(2) requiring inclusion in the local content qualifier of all costs enumerated in section 402(b)(1) of the Tariff Act of 1930 as amended by the Trade Agreements Act of 1979, if incurred in the United States, whether or not such item is a part of the appraised value. Such a provision would stimulate and encourage the use of American parts, materials, equipment, and engineering.

Thank you, sir. I shall be pleased to answer any questions.

[The prepared statement follows:]

STATEMENT OF W. HENRY PARSONS, CHAIRMAN OF THE GENERALIZED SYSTEM OF PREFERENCES COMMITTEE, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

SUMMARY

The GSP has helped beneficiary countries become our important customers, and has thus generated its own reciprocity.

The existing GSP law should be renewed with some improvements. Specifically, there should be continued flexibility and Presidential discretion in administering the competitive-need limitations; in the de minimus rule there should be an increase from $1 million to $5 million, with escalation tied to the U.S. GNP. In case of all removals, reinstatement should be automatic if importations subsequently fall below the appropriate competitive need limitation.

There should be a redefinition of the rules of origin; U.S. input should count toward the 35% beneficiary country content qualifier—a rule well entrenched in the general preferential programs of other donor countries, including Japan and Canada, and is also embodied in the recently enacted Caribbean Basic Initiative Act. This would provide an incentive to GSP beneficiary country manufacturers to use U.S. rather than third-country material and would eliminate the present anomalous disincentive. (See Japanese Law excerpt—Exhibit"A"—attached)

The competitiveness of beneficiary country products should be judged against their competitiveness with like products from developed countries, not only those from lesser developed countries—otherwise the particular trade might move to an industrialized country.

Graduation of countries on particular products should only be promulgated when it is anticipated that the trade will move to lesser LDC's. The graduation should be reversed when it is clear that trade has moved to a developed country or countries.

STATEMENT

Mister chairman, members of the committee, my name is W. Henry Parsons. I am the Corporate Manager of Customs at General Electric Company. I am here in my capacity as chairman of the GSP Committee of the American Association of Exporters and Importers (AAEI), to present the Association's testimony. I am accompanied by Stephen Lande, Vice President of Manchester Associates, Ltd., a member of my committee. I am not here to give testimony in behalf of General Electric Company.

AAEI is a nationwide, non-profit association, established in 1921, comprising some 1400 American firms and service organizations engaged in various and diverse exporting and importing operations. The Association is a recognized voice of the American international trade community, and welcomes the opportunity to present its views in support of the renewal and strengthening of this worthy endeavor, the United States Generalized System of preferences (GSP). In particular, the Association will also detail its reaction to the general goals of the Administration, as set forth in your Press Release of July 21, 1983, announcing your earlier hearings on this subject.

ENDORSEMENT BY AMERICAN EXPORTERS AND IMPORTERS

Both American exporters and American importers see it as imperative that the U.S. Generalized System of Preferences be renewed, be liberalized, and enlarged to include more products. Perhaps no scheme in the annals of international trade, based on the unselfish motive of helping others, has brought a greater return to the donor than has this. And this despite its under-utilization, despite its restrictions, and despite its subjective administration.

That the scheme is under-utilized is manifest from the facts that duty-free imports of GSP-eligible articles from BDC's have typically accounted for only about 3 percent of total U.S. imports, that despite availability of duty-free entry for qualified eligible products from some 140 BDC's, over 70 percent of U.S. imports of those products are from the industrialized countries which are ineligible for GSP benefits. Significantly, less than 14 percent of GSP-eligible articles enter the U.S. duty-free.

In spite of all that, the GSP countries, as a group, purchase from the U.S. nearly 40 percent of total U.S. world-wide exports. Their GSP earnings have helped them do that—and today the healthiest segment of the U.S. trade balance is with the GSP beneficiary countries.

The GSP has helped American industry meet intense foreign competition, both at home in the U.S. and on world markets, by providing less-expensive parts and materials from the beneficiary countries for incorporating into U.S.-manufactured products. How many of those American products would have succumbed to competition from particular industrialized countries in the absence of GSP-benefiting imputs?

At a time of severe foreign exchange crises for heavily-indebted developing countries, their foreign exchange earnings from the GSP have helped avoid default, and all of its consequences for the world economic system! The GSP also reduces the need for direct economic aid to those countries.

All of these economic benefits to American industry, to American workers, and to American consumers are substantial, and have occurred without perceptive harm to industry or labor. A true balance sheet, however, would show the United States with a net gain from its GSP operations. How much greater would be the gain from a liberalized and expanded GSP?

The record shows little exposure of U.S. import-sensitive products to GSP competition. The fact is that import-sensitive products have not been designated for GSP benefits, and the existing annual review process has facilitated the prompt removal from eligibility of articles found to be import sensitive in the context of GSP. And further, most GSP products carry low duty rates, which have been reduced even more than average in the Multi-Lateral Trade Negotiations, of itself a strong indication that GSP-eligible products are not import sensitive.

The GSP has also brought the U.S. advantages on the geo-political and diplomatic fronts. The major beneficiaries are among our most important allies and friends, and we look, too, to the lesser beneficiaries building up their economies and their political institutions. Located as they are in prime strategic areas of the world, their friendship is invaluable. Trade relationships we have forged with them should prove lasting and durable and may yet serve the U.S. in many ways.

A strong U.S. Generalized System of Preferences will be a prime asset to the United States. Motivated by enlightened self-interest, the European Communities and Japan, as well as other industrialized nations, have already nenewed their schemes and expanded their product coverage without curtailing their beneficiary lists. In particular, both the EC and Japan each renewed their schemes for fifteen-year terms. The international system of burden sharing represented by the various generalized preferential schemes of the donor nations is a vital part of an equitable system of international trading. The demise, or weakening, of those schemes could contribute to political and economic instability. Certainly the United States has not only an international responsibility to provide a non-reciprocal GSP program, but will itself be a major beneficiary therefrom.

I turn now to:

THE ASSOCIATION'S REACTION TO THE GENERAL GOALS OF THE ADMINISTRATION

1. The goal of limiting GSP treatment for highly competitive products

This goal can only be justified if it succeeds in transferring the particular trade to a lesser-developed country or countries. Adequate prior study and safeguards should be required to ensure the desired success. In particular, there should be provision for immediate restoration of the status quo where it is shown that the action has driven the trade to an industrialized country or countries.

2. Assuring U.S. exports greater market access in beneficiary countries

This is another way of seeking reciprocity or a "quid pro quo." It should be noted that one of the results of the Tokyo-round of GATT negotiations was agreement that the developed countries would not expect full reciprocity from developing countries.

We urge that great care be exercised in seeking greater market access from any particular country. For one thing, in some cases, the advocates of those conditions may simply be opponents of GSP who will regard such "conditioning" as an easy way to accomplish their protectionist purposes. Any requests for concessions must be consistent with the degree of economic development—and the resulting level of competitiveness in relation to the developed countries—that has been attained by the country and product sector in question. To ask for more would be inconsistent with the purpose of GSP—which is to help the BDC countries become competitive, rather than to ask them to compete before they can.

We believe, too, that it would be too early, and therefore counter-productive to press for greater market access in the case of an economically-strained country which still necessarily restricts imports so as to carefully channel its foreign exchange resources to priority purchases from the U.S. for the building of its infrastructure. If more open market access were to be achieved, it could result not in additional purchases from the U.S., but in different purchases, or, perhaps, in default.

Developing countries are our nation's most important export market. To cut back on the GSP privileges of such a country would restrict its ability to generate foreign exchange and force that country to cut back on its purchases from the U.S. In other words, increased export opportunities for the U.S. are a natural consequence of our GSP program. The program generates its own reciprocity.

3. Reallocating benefits to the less-developed beneficiary countries to the degree possible

This goal can only be achieved if the particular country or countries have, or can create, the infrastructure necessary to support the particular trade, which, in many cases, may be doubtful. Where this goal involves depriving more developed BDC's, adequate prior study and safeguards should be required to ensure the desired success. Here again, there should be provision for immediate reversal where it is shown that the action has driven the trade to an industrialized country or countries.

There may be opportunities in circumstances where long-term investment is necessary, but the proposed ten-year extension would probably be too short to attract investors. Otherwise this goal may only succeed with cottage industry products and the like. We believe, however, that, in spite of the difficulties, effort shoud be made to encourage lesser-developed countries (including the LDDC's) to take advantage of the U.S. GSP. Given the standard of development of some of these countries, creative individual internationally-sponsored projects may be the answer. Certainly their GSP benefits should be open-ended and without competitive need limits.

4. Conforming to U.S. international obligations under GATT

As American exporters and importers, we believe that the U.S. should conform to the GATT rules and insist that others do likewise. A weakeniing of the GATT should not be contemplated. The GATT must be strengthened and revitalized, and the U.S. can show the way. For this reason the desire for greater market access should be tempered by the knowledge that, largely, the BDC's are good customers and, given the opportunity to earn more foreign exchange, will become yet bigger customers of the U.S.

I turn now to:

THE ADMINISTRATION'S LEGISLATIVE PROPOSAL

The Association supports the proposed grant of authority to the President to waive the competitive need limitations. We believe that such discretionary authority is necessry to complement the President's existing authority to add and remove products from GSP eligibility. We do not, however, believe that the only consideration in granting such waivers should be a BDC's "assurances" of market access, as is proposed in Section 3 of the Administration's legislative proposal. We believe that decisions to grant waivers must also give great weight to many economic and political factors, such as the need for a BDC to generate U.S. dollar earnings to pay for its imports, as well as overriding foreign policy considerations. A positive finding on any one of those considerations should also be sufficient to grant the waiver.

The "Statement of Purposes" set forth in Section 1 of the Administration's proposed bill are all relevant factors which should be taken into consideration in making decisions concerning waivers of the competitive need limitation, and other

matters involving a BDC's participation in the GSP. We therefore strongly recommend that the Statement of Purpose section of the Administration's proposed legislation be incorporated by amendment, either by reference, or in full, in the present Section 501 of the Trade Act of 1974.

While we strongly endorse the concept of discretionary authority to grant waivers of the competitive need limits, we oppose the Administration's proposal to reduce by one-half the competitive need limits which would apply to certain products of certain BDC's. The current competitive need limits have provided effective safeguards, and there is no need to reduce them.

Moreover, under the Administration's proposal, the competitive need limitations would be reduced upon a determination that a BDC "has demonstrated a sufficient degree of competitiveness relative to other beneficiary developing countries with respect to any eligible article." While it would be inappropriate to reduce the competitive need limits at all, it would be even more inappropriate to do so based solely on consideration of a BDC's competitiveness vis-a-vis other beneficiary countries. In any decision which affects a BDC's eligibility for GSP with respect to a given product, the United States must continue to take into account the beneficiary's overall competitiveness in the particular product, i.e., its competitiveness vis-a-vis the industrialized countries must also be taken into account. Therefore we respectfully urge your Committee to ensure that any proposed legislation emanating from these hearings should not use the wording "competitiveness relative to other beneficiary countries," but rather "competitiveness relative to the industrialized countries."

A BDC's access to GSP for an eligible article should not be limited unless there is clear evidence that such action will accrue to the benefit of one or more of the lesser-developed BDC's, and that the overall interests of the United States would be served. To limit a BDC's GSP eligibility would be contrary to the Administration's stated understanding that developing countries are our fastest-growing markets, and that increased export earnings for such countries mean increased ability to buy our exports and to pay their foreign debts.

The Association's proposals

The Association also suggests that other factors be incorporated into the proposed legislation, as follows:

With regard to the dollar value competitive need limitation, the new law should treat such questions as to whether excessive increases in costs of raw materials have led to increased value of imports without actual increase in shipments to the United States; whether total imports from BDC's of a product are a significant part of total U.S. imports of that product; and whether diverse products in a basket classification may unjustly also be affected.

Also, there should be a strong de minimus rule in the competitive need limitations. The present $1 million de minimus is too small and unrealistic, it should be increased to $5 million—with escalation tied to the U.S. GNP.

In calculating trade totals for possible competitive need removal, the new law should require that only GSP duty-free qualifying trade be considered, not trade which includes that which fails to qualify and on which duty has been paid.

There should also be provision for the automatic redesignation of products removed for competitive need reasons where imports from the affected country fall in subsequent calendar years below 80 percent of the competitive need criteria, demonstrating that the product was not ready for graduation. The only permissible exception to such a requirement should be based on a clear showing that the trade had moved to an even less-developed beneficiary country.

Product coverage should be expanded by breaking potentially eligible products out of baskets which have lost, or are about to lose, GSP eligibility because of either competitive need criteria. Clear criteria should be established permitting, or mandating, such breakouts where justified on economic grounds.

There should also be flexible provisions for making adjustments to compensate for problems created solely by the expected adoption of the Harmonized System. Certainly there should be no weakening of the U.S. GSP, due to such a technical change.

Annual modification announcements

A particular problem experienced by all with the annual modification announcements is the short lead time, causing an undue burden on American importers and BDC manufacturers. It is not good enough to receive notice of the exclusion of a product just two or three days (and last year just four working hours) before taking effect. The new law should provide that annual modifications take effect on July 1 each year, and that three months' notice of withdrawal be mandatory.

Escape clause actions

In the case of escape clause actions, AAEI proposes that products be removed from GSP eligibility only if there is a clear showing that duty-free GSP imports are part of the problem which has prompted the action.

Duration of GSP law

AAEI recommends that the new GSP law should be enacted for a period of twenty years, to stimulate GSP-induced capital investments.

Modify rules of origin

And now, Mr. Chairman, I have left until last the most serious defect in the existing U.S. GSP law, and in this proposed legislation, specifically in the Rules of Origin. The Association believes that certain modifications in the U.S. GSP Rules of Origin are long overdue, and should be incorporated in the new legislation. The first and most important of these is a redefinition of the 35 percent local content qualifier. First and foremost, U.S. inputs, specifically, U.S. materials, fabricated parts, etc., as well as U.S. engineering, research, design and development, should be counted in the 35 percent qualifier, regardless of whether sold to or provided free to the BDC manufacturer.

This proposed change would be consistent with the long-standing positions of the other GSP donor countries who recognize imput from their own countries as includible in their local content qualifier for their generalized preference programs, viz., Japan, Canada, and others. We promote this change, not because other donor countries embrace it, but because it is the smart thing to do.

We are not proposing a mandatory U.S. content in any circumstances; in fact, we reject the concept of a mandatory U.S. content. It would engender resentment, particularly from those able to exceed the 35 percent BDC minimum content but unable to substitute U.S. for third country input. There should, however, be an incentive for the voluntary use of U.S. materials. It is a fact that an eligible article, which is 33.3 percent by value from a BDC, 33.3 percent by value from the U.S., and 33.3 percent by value from Japan, would qualify for duty-free entry into Japan, but not into the U.S. Substitute the 33.3 percent U.S. value with 33.3 percent Canadian value, and the same article would qualify for duty-free entry into both Japan and Canada. Many permutations of these examples could be cited, all of which prove conclusively that BDC manufacturers find an incentive in using non-U.S. material and a disincentive to using U.S. material. American exporters ask that this anomaly be corrected. American exporters want an opportunity to sell to manufacturers in the BDC's and to establish ongoing relationships to sell to manufacturers in the BDC's and to establish ongoing relationships which might well carry on long after the GSP has served its purpose and taken its place in history.

The Report to the Congress on Rules of Origin, transmitted last year by the U.S. Trade Representative pursuant to Section 305(c) of the Trade agreements Act of 1979, described, among other things, the GSP rules of origin of the other donor countries, and also the U.S. GSP rules of origin. Nowhere does the report mention that other GSP donor countries, including Japan and Canada,—without qualification—recognize content from their own countries as includable in the local BDC content qualifier. But here it is clearly stated in the GSP laws of Japan. Mr. Chairman, I have appended to my statement, as Exhibit A, a copy of the English language version of the portions of the Japanese law recognizing their own input as counting toward the local content qualifier.

The Association respectfully suggests that the new legislation should contain an amendment to section 503(b)(2) requiring the inclusion in the local content qualifier of all costs enumerated in Section 402(b)(1) of the Tariff Act of 1930, as amended by the trade Agreements Act of 1979, if incurred in the United States, whether or not such item is a part of the appraised value. Such a provision would stimulate and encourage the use of American parts, materials, equipment and engineering.

Other necessary origin changes which should be included in the Bill are: (1) When two or more BDC's produce a product, there should be provisions for cumulative fulfillment of the 35 percent minimum local content qualifier, as there is in the Caribbean Basin Initiative Act. Alternatively, there should be provision for qualification for duty-free entry when any one BDC in the chain exceeds the 35 percent local content qualifier.

(2) The so-called double transformation requirement is presently administered subjectively. The same criteria as for country of origin marking for imported goods should be the basis for determining whether transformation has occurred.

Thank you, again, for this opportunity to present the Association's testimony. I shall be pleased to answer any questions.

EXHIBIT "A"

JAPAN'S GENERALIZED SYSTEM of PREFERENCES

Use of materials imported from Japan

In application of the origin criteria, special treatment will be accorded, as follows, to the materials imported from Japan into a preference-receiving country and used there in the production of goods to be exported to Japan: ("Donor Country Content Rule")

(1) In the case of the goods produced in a preference-receiving country only from materials imported from Japan, or those produced in a preference-receiving country only from materials wholly obtained in the preference-receiving country and materials imported from Japan, such goods will be regarded as being wholly obtained in that country.

(2) In the case of the goods produced in a preference-receiving country in which materials imported from Japan and materials other than those imported from Japan or wholly obtained in the preference-receiving country are used with or without materials wholly obtained in the preference-receiving country, the materials imported from Japan which are used in the production will be regarded as being wholly obtained in that preference-receiving country in determining the status of origin of such goods.

However, with regard to the goods listed in Appendix VI, the special treatment will not be granted.

The Ministry of Foreign Affairs of Japan

APPENDIX VI

List of Products which are Manufactured by Use of Materials Imported from Japan but Excluded from Donor Country Content Rule

CCCN heading	
41.02-2	Bovine cattle leather (including buffalo leather) and equine leather other than parchment-dressed, except leather falling within heading No. 41.06 or 41.08
41.03-2	Sheep and lamb skin leather other than parchment-dressed, except leather falling within heading No. 41.06 or 41.08
41.04-2	Goat and kid skin leather other than parchment-dressed, except leather falling within heading No. 41.06 or 41.08
41.05-2	Other kinds of leather other than parchment-dressed, except leather falling within heading No. 41.06 or 41.08
41.08	Patent leather and imitation patent leather; metallized leather
42.02	Travel goods (for example, trunks, suit-cases, hat-boxes, travelling-bags, rucksacks), shopping-bags, handbags, satchels, brief-cases, wallets, purses, toilet-cases, tool-cases, tobacco-pouches, sheaths, cases, boxes (for example, for arms, musical instruments, binoculars, jewellery, bottles, collars, foot-wear, brushes) and similar containers, of leather or of composition leather, of vulcanized fibre, of artificial plastic sheeting, of paperboard or of textile fabric
43.02	Furskins, tanned or dressed, including furskins assembled in plates, crosses and similar forms; pieces or cuttings of furskin, tanned or dressed, including heads, paws, tails and the like (not being fabricated)
43.03	Articles of furskin
ex chapter 46	Goods of artificial plastic materials
section XI	Textiles and textile articles
64.02	Footwear with outer soles of leather or composition leather; footwear (other than footwear falling within heading No. 64.01) with outer soles of rubber or artificial plastic material
65.01	Hat-forms, hat bodies and hoods of felt, neither blocked to shape nor with made brims; plateaux and manchons (including slit manchons), of felt
65.03	Felt hats and other felt headgear, being headgear made from the felt hoods and plateaux falling within heading No. 65.01, whether or not lined or trimmed
65.05	Hats and other headgear (including hair nets), knitted or crocheted, or made up from lace, felt or other textile fabric in the piece (but not from strips), whether or not lined or trimmed
70.20	Glass fibre (including wool), yarns, fabrics, and articles made therefrom
97.01	Wheeled toys designed to be ridden by children (for example, toy bicycles and tricycles and pedal motor cars); dolls' prams and dolls' push chairs
97.02	Dolls
97.03	Other toys; working models of a kind used for recreational purposes

Mr. PEASE [presiding]. Thank you very much, Mr. Parsons.

Any questions?

Mr. Schulze.

Mr. SCHULZE. Mr. Parsons, I think you make a very good point as far as change goes.

What ramifications would that have in the CBI? Would that give them preferential or less preferential treatment?

Mr. PARSONS. We are asking for more than the CBI gives. The CBI, in asking for 35 percent local content, permits inclusion of American content up to 15 percent of the 100 percent. So, in effect, one could have in the CBI an awful lot of American material in it, but only 15 percent of the total value would be recognized as American material contributing towards the 35-percent qualifier.

We are suggesting that we should do it both in the CBI, and it could be so amended, but certainly in new GSP legislation—exactly what Japan has; that in our local content qualifier, U.S. material should count, just as Japanese content counts in theirs. Japanese material counts toward their local content qualifier. So, in our case, should U.S. content count towards our local content qualifier.

Mr. SCHULZE. Don't we get into the problem of making a shirt without buttons and shipping it over to the Caribbean and having them put the buttons on and ship it back in?

Mr. PARSONS. In an example like that, I would have thought that if anyone was crazy enough to do just that, there would be every reason why the shirt should come back in duty free, yes.

Mr. SCHULZE. What were they doing? They were just cutting the cloth and shipping it out to be sewn and bringing it back? A couple of years ago, there was a problem with that, it seems to me.

Would this encourage that type of operation?

Mr. PARSONS. Yes, I think it would. But I don't think there is anything wrong with that. I think the principal objection to this proposal goes back much further, and it goes back particularly to the starting of the watch assembly industry in such places as Guam, where some smart operators were importing into Guam watch movements which were perhaps $2 each and shipping from the United States rather fancy cases with rinestones on them, which were perhaps $2.25 each, putting the movement into the case in Guam and shipping it back to the United States, with a value of more than 50 percent U.S. Material, the U.S. material counting as local Guam material. But when the article got back to the United States, the same people had another crew taking the movements out of the fancy cases, putting them in cheap cases and recycling the original cases back to Guam. And, of course, this caused some consternation at the time, which I think was 30 years ago or more, and ever since people have been against recognizing U.S. content as local content.

Of course, that kind of strategy can easily be legislated against by the simple device of not counting any work which is going to be undone when the article reaches the United States. So I think that there is plenty of opportunity to prevent that kind of criminal strategy.

Mr. SCHULZE. Where else does opposition to your proposal come?

Mr. PARSONS. There is some opposition, I think, from the labor unions. But I think it is misguided. Also, it is not consistent with

their attitude on other articles where they call for mandatory U.S. content.

Mr. SCHULZE. Thank you, Mr. Chairman.

Mr. PEASE. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

Thank you for your testimony, Mr. Parsons, and for the excellent presence you have at the witness table.

I am interested in your redefinition of the local content qualifier, too. As you know, we got into this question, perhaps not in the same way, when we discussed the CBI, and it seems to me if you allow U.S. origin to substitute for local origin, you are going to develop a situation in which we are exporting to nearby countries, particularly the Caribbean and Central America, where a high labor component can be bought cheaply. I guess sewing is a good example because we don't include textiles. But electronic assembly might be what we are talking about. It might be something your company would indulge in.

I don't think that is the intent of GSP. I would agree that the suggestion is good from the standpoint that we should encourage U.S. companies to invest in these countries. On the other hand, what you are suggesting, it seems to me, is an incentive for us to sort of use these countries in a way that I don't think conforms to at least part of the intent of GSP.

There are still some, I hope, humanitarian instincts involved in GSP, and I would hope it would be our intent not to suck these countries dry.

Mr. PARSONS. I agree absolutely with what you say, sir. However, our suggestion is that there should be no mandatory U.S. content; but where they do use U.S. material rather than material from third countries, the U.S. material should count exactly the same as local content, which is precisely what other donor countries are doing.

Mr. FRENZEL. That means that you could supply 34 percent from the United States and 1 percent locally, and qualify?

Mr. PARSONS. Well, yes, that could happen. However, in practice it would be very unlikely to work like that. In any article which is actually manufactured in such a country, it would incur much more than 1 percent.

Mr. FRENZEL. I agree. But part of GSP is to encourage the country to do its own thing, whether with our investment or somebody else's. If you let too much U.S. content substitute for local content, you are putting a lid on the improvement that can be wrought in the developing country. I think what we are trying to do is selfishly improve our markets abroad by increasing the standards around the world and, at the same time, satisfy our humanitarian urges for helping people who obviously need help.

I just suggest that if there isn't some limit on the substitution of content, you are going to get abuse.

Mr. PARSONS. In the case of the CBI legislation, in limiting the amount of U.S. content to 15 percent and 20 percent, that means there would have to be a minimum value added from that country. Of course, in any reasonable manufacturing or production operation in that country, if it is at all meaningful, I am sure there would be at least 20 percent.

Mr. FRENZEL. Yes.

Mr. KERSNER. Part of the concern of using GSP as just an assembly area for U.S. material we don't see as a burden. Under 807, even articles which are prohibited duty-free status under GSP are entitled to 807 treatment under section 807. So, therefore, any consideration as to just using certain developing countries for assembly operations, any U.S. company can take advantage of such a program and just have in effect duty on the labor under 807. One would not look to GSP for that. GSP, by definition, requires some manufacturing operation.

Then, second, as you are aware—or may not be aware—the U.S. Customs Service, in implementing the GSP program, has developed this concept of double substantial transformation, which is a technical legal rule which requires that before material be counted as material of the beneficiary developing country, it need go through a two-step process to become part of that material, of the qualifying material for the BDC.

Really, what our proposal is aiming at is to eliminate that problem; that where you have U.S. material that goes to a BDC, it undergoes extensive manufacturing operations. But, for some reason, the Customs Service might rule that that material, even after it might undergo two or three steps in the manufacturing operation, still does not qualify as local content. Our proposal would remedy that particular situation.

Mr. FRENZEL. Perhaps we ought to change the Customs Service's regulation or interpretation rather than changing local content. Anyway, it is an interesting suggestion. It is one that the committee has to consider, and we are indebted to you for serving it up to us.

Thank you, Mr. Chairman.

Mr. PEASE. Mr. Parsons, let me just ask one question. I think when the CBI came up last year there was some concern that fairly high tech items would be manufactured essentially in, say, Japan, shipped to the Caribbean, finished off there and brought into the United States.

Under your proposal, could an item be manufactured 65 percent in Japan and 34 percent in the United States and 1 percent in a Caribbean nation and still qualify?

Mr. PARSONS. I think it is extremely unlikely that there would be very much of that sort of thing where only 1 percent or a very small percentage would be performed in the beneficiary country. We would be more likely to have a situation where there would be 60 or 70 or 80 percent U.S. input, which would do nothing for getting duty-free treatment under the U.S. GSP. That situation exists in many, many products today where we have not got the two-stage transformation of the U.S. material into local material.

I agree that it would be theoretically possible that you could have 60 percent Japanese, 35 percent United States and only 5 percent local content. I think that is more theoretical than real, however. It would be more likely to be the reverse where we have 60 percent or 80 percent U.S. content.

Mr. PEASE. You realize that we often legislate in these halls on the basis of worst case scenarios. Those who oppose legislation gen-

erally oppose it based on what is the worst thing that can possibly happen.

Thank you very much. We certainly appreciate your testimony.

Mr. PARSONS. May I just add one sentence?

Mr. PEASE. Surely.

Mr. PARSONS. We certainly see the CBI formula as a very good compromise on this issue; that is, 15 percent U.S. content may be counted toward the local content qualifier.

Mr. PEASE. Thank you.

Our next witness will be from the Emergency Committee for American Trade, Mr. Calman Cohen, vice president.

STATEMENT OF CALMAN J. COHEN, VICE PRESIDENT, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. COHEN. Thank you, Mr. Chairman.

I am Calman Cohen, vice president of the Emergency Committee for American Trade.

Recognizing that the foreign exchange earnings generated from GSP exports assist Third World countries in meeting debt service requirements and that these exports result in increased production and employment abroad and here at home, ECAT has long been a supporter of the GSP program. ECAT members who, in 1982, had over $700 billion in worldwide sales view GSP as one of the best ways to assist the economic development of the less developed countries and to further the integration of countries into the trading system of the world.

As the standard of living in beneficiary countries rises, the developing countries will be in a better position to shoulder their share of the responsibility for promoting global trade. They will be better customers for U.S. exports.

I have heard the concept of trade reciprocity discussed a number of times during this hearing today, and I think it is worth recognizing that the developing world now constitutes the fastest growing market for U.S. trade. Nearly 40 percent of all U.S. exports are currently purchased by the developing countries, the very countries who would benefit from GSP. In short, we think that by fostering the economic health of Third World countries, the GSP system well serves U.S. international economic and political interests.

We believe there can be a number of improvements made in the program. One area would be in the allocation of benefits. The bulk of benefits under the program at the present time go to a relatively limited number of the most advanced of the developing countries.

Several options should be considered to encourage the partial shifting of benefits from the most to the least developed. One would be to allow for greater flexibility in competitive need limitations for the least developed of the developing countries. Another option would be to raise the de minimis level on items from the least developed countries which do not threaten to harm U.S. industries.

A second area where we think there need to be improvements in the program concerns unnecessary developing country tariff and nontariff barriers to trade in goods and services and investment. We believe that market access, as has been discussed earlier today, should be considered as a more important factor than it has been

to date in making decisions on appropriate levels of GSP benefits. This is especially the case for the richest developing countries.

I would like to give one general example—the situation of the U.S. cigarette exports. We are most concerned that two of the most advanced developing countries, South Korea and Taiwan, that account for approximately two-fifths of all GSP imports into the United States, very virtually exclude American cigarettes from their markets. In South Korea, citizens possessing an American-made cigarette are subject to a fine and/or imprisonment.

In Hong Kong, another major GSP beneficiary, a discriminatory protective tax on U.S. cigarettes was significantly increased last year. In Thailand, by virtue of a tobacco monopoly, U.S. manufacturers are virtually excluded from the market. These are just some examples of foreign government actions that should affect decisions on appropriate levels of GSP benefits.

A third area where we feel improvement could be made in the GSP concerns protection of intellectual property rights and the reduction of trade distorting practices. ECAT believes that the record of developing countries, especially the more developed among them, on the protection of intellectual property rights as well as on trade distorting practices, such as domestic content and export requirements which have been long concerns of this committee, should influence decisions on the appropriate level of GSP benefits.

To summarize: ECAT supports GSP. At the same time, ECAT supports changes in the GSP system. To encourage the partial shifting of benefits from the most to the least developed of the developing countries, there needs to be greater flexibility in GSP rules for the poorest nations. The GSP rules should be far tougher for the more developed nations that get the bulk of GSP benefits.

Thank you.

[The prepared statement follows:]

STATEMENT OF CALMAN J. COHEN, VICE PRESIDENT, EMERGENCY COMMITTEE FOR AMERICAN TRADE

SUMMARY

ECAT strongly supports the extension of the System of Generalized Preferences. The benefits of GSP accrue to the developing world as well as to the United States. Wealth is created through increases in production and generation of jobs here at home and abroad.

Improvements need to be made in the GSP system to improve the distribution of benefits in the developing world through shifting benefits from the most to the least developed. This should be done in a gradual fashion so as not to disrupt third world development and debt-servicing programs in place. Competitive need limitations should be imposed somewhat flexibly on exports from the poorest countries, and the de minimus level on those exports should be increased. Especially in the case of the most developed of the developing countries, decisions on the provision of GSP benefits should take into greater account a country's record on the treatment of investment, the protection of intellectual property rights, and the liberalization of trade-distorting practices such as domestic content and export performance requirements and the virtual exclusion of such U.S. products as cigarettes from their markets.

STATEMENT

Mr. Chairman, thank you for the opportunity to present the views of the Emergency Committee for American Trade (ECAT) on the U.S. Generalized System of Preferences (GSP) which is scheduled to expire in January 1985.

The members of ECAT are large firms with substantial overseas business interests. The 1982 worldwide sales of ECAT member companies totaled about $700 billion. In the same year, they employed over five million workers.

INTRODUCTION

The GSP system assists the development of third world countries by providing duty-free access to the U.S. market, subject to appropriate limitations. The foreign exchange earnings generated from exports assist third world countries in meeting their debt-servicing requirements and the exports themselves result in increased production and employment.

The GSP system is critically important to the developing countries, particularly in light of the financially precarious situation of some of them. The system has great importance to the maintenance of third world economic and political stability.

ECAT has long been a supporter of the GSP program. Members view it as one of the best ways to assist the economic development of the less developed countries and to further the integration of developing countries into the international trading system. As the standard of living in beneficiary countries rises—in part due to the tariff preferences received under the U.S. GSP system and similar programs instituted by other OECD nations—the developing countries will be in a better position themselves to shoulder their share of the responsibility for promoting global trade. They will be better customers for U.S. exports. Already the developing world constitutes the fastest growing market for U.S. goods. Nearly 40 percent of all U.S. exports are currently purchased by the developing countries. In short, by fostering the economic health of third world countries, the GSP system well serves U.S. international economic and political interests.

We recognize that competitive imports benefiting from the GSP system can cause difficulties for domestic producers, and are pleased to note that a recent study of the GSP system by the International Trade Commission demonstrates, among other things, that GSP is not adversely affecting U.S. producers.

IMPROVEMENTS TO THE PROGRAM

Reallocation of benefits

The bulk of benefits under the program go to a relatively limited number of the most advanced of the developing countries. Changes in the GSP program, therefore, appear to be called for in order to encourage the partial shifting of some of the benefits to the least developed of the developing countries. The partial reshifting of the program, however, should not be done in a precipitate fashion which would cause additional problems for developing countries currently facing severe debt-servicing difficulties.

Several options should be considered, including:

Allowing for greater flexibility in competitive need limitations for the least developed of the developing countries. While these limitations are designed to ensure that a country does not receive continued preferential tariff treatment on an item on which it has become competitive, the limitations should not be imposed in an inflexible fashion on the poorest countries.

Raising the de minimus level on items from the least developed countries which do not threaten to harm U.S. industries. The competitive need limitations should apply above a higher dollar level than they now do.

Graduation or the removal of countries from GSP eligibility can also be used to help effect the wider distribution of benefits. Care must be taken, however, that graduation not be used as a tool simply to frustrate the purpose of the overall GSP program.

Reduction of unnecessary developing country tariff and nontariff barriers to trade in goods and services and investment

Tariff and non-tariff barriers frequently block access of U.S. firms to developing country markets. While it is unrealistic to expect countries undergoing development to be in a position to eliminate all such barriers, it is reasonable to expect the gradual liberalization of those trade, services and investment barriers in the more advanced developing countries which have been the major beneficiaries of the GSP system. Certainly, such countries should not raise discriminatory barriers to otherwise highly competitive U.S. products.

ECAT believes that market access should be considered as a more important factor than it has been to date in making decisions on appropriate levels of GSP benefits, especially for the richest developing countries. We are most concerned, for example, that two of the most advanced developing countries—South Korea and

Taiwan—that account for approximately two-fifths of all GSP imports into the United States virtually exclude American cigarettes from their markets. In South Korea, citizens possessing an American-made cigarette are subject to a fine and/or imprisonment.

In Hong Kong, another major GSP beneficiary, a discriminatory protective tax was significantly increased last year in a manner contrary to the stated trade and economic policies of the government of Hong Kong.

In Thailand, by virtue of a tobacco monopoly which exists as a result of government policy, U.S. cigarette manufacturers are virtually excluded from the Thai market.

Certainly such actions should be taken into account in deciding GSP benefits.

Protection of intellectual property rights and reduction of trade-distorting practices

Similarly, we recommend that U.S. officials administer the GSP program in a manner that will assist the protection of copyright, patent, and other U.S. intellectual property rights in the developing countries.

We are concerned too that serious trade-distorting practices, such as domestic content and export requirements, are multiplying in the less developed countries.

ECAT believes that the record of developing countries, especially the more developed among them, on the protection of intellectual property rights as well as on trade-distorting practices, should influence decisions on the appropriate level of GSP benefits.

Chairman GIBBONS . Thank you, Mr. Cohen.

Have you all talked to enough members of this committee to know if we can pass the simple extension of this bill?

Mr. COHEN. I don't know the answer, but I hope that would be the case.

Chairman GIBBONS. We may have to try it. We are not reaching any concensus about what we ought to do about the rest of the bill. I have talked to members of the administration, and I have talked to members of the committee and I can't find a general consensus on the basis for which we can move ahead on this. It seems to me the whole area is in quite a bit of disarray. I recognize that developing countries are a large market for the United States, but that doesn't seem to be enough to move this bill off dead center is what I am saying.

Mr. COHEN. As we look at it, GSP means more jobs and more production in the United States, as well as in developing countries. We don't see a renewed GSP as leading to losses in either area in the United States. I know over the years there have been many, many petitions made regarding import-sensitive goods. There is a procedure that is in place whereby one can petition to have items removed from GSP, provided one can demonstrate that they are import sensitive.

I think that that is an important factor that may, if better recognized, lead to greater support for the program.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. I have no questions, Mr. Chairman.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. Yes, Mr. Chairman. Thank you.

Thank you very much for your testimony, Mr. Cohen.

As I listened to you, I see you asking for two distinctions: one, between the countries which give us reasonable access, and one between the countries which are more developed and those which are less developed. How does that fit with what the administration would like to serve us?

Mr. COHEN. I think in many areas it is consistent with the proposals that they have presented. Greater direction must be given to

the administration regarding what the most developed of the developing countries have to do in order to improve their market access.

If you take a look at how the Congress structured the GSP program in the Trade Act of 1974, you do not see an explanation of the term, market access. I think there needs to be greater specificity as to what it encompasses. Congress needs to mandate attention to such areas as investment and trade distorting practices, such as domestic content and export requirements. This is not a question of reciprocity on a product-by-product basis, whereby the United States exports a certain amount of cigarettes to a country which matches that agreement.

It is not a one-for-one thing. It is just a question that the Congress has to provide greater leverage to the administration—through a redrafting of the GSP law—to get improved access to developing country markets.

Mr. FRENZEL. You mentioned the problem of cigarettes in Hong Kong.

Mr. COHEN. Yes.

Mr. FRENZEL. Most of us are aware of the Korean cigarette problem and other problems in Korea. I think many of us have felt over the years that probably with the possible exception of Singapore, there is hardly a more open market than Hong Kong. Do you want to amplify on the cigarette problem? Is it just ours or everybody's cigarettes?

Mr. COHEN. My understanding is that the focus is on imported cigarettes. The tax in Hong Kong affects significantly the ability of U.S. companies to export their cigarettes to Hong Kong.

They would be able to reduce the burden on themselves by setting up manufacturing plants there to substitute for exports from the United States. This would lead to a loss of jobs here in the United States. Certainly this problem is not something that we would look at to the exclusion of everything else related to Hong Kong, but it is something that we think needs examination because of the reputation of Hong Kong for being generally open. There does seem to be a problem that has emerged here.

We understand too there may be a major increase in the tax that affects the export of U.S. cigarettes. It was increased, I believe, several fold just in 1983, and a major new increase is, I believe, being contemplated.

It is something we think that needs to be looked at. There has been, I believe, some presentation made by companies to the administration on the matter, and there may be an investigation in progress on the facts in the case.

Mr. FRENZEL. I think it is interesting because we have always looked to Hong Kong as one of the great examples. It is interesting to note that there apparently is no immunization against protectionism no matter how good a country's general record is.

How about the distinction between most developed and least developed? Are you satisfied with what the administration is promoting there?

Mr. COHEN. I believe so. I believe that in large part that distinction should be reduced to terms of per capita income and related economic factors. Our concern is that unless we encourage imports from the least developed of the developing countries through some

more generous treatment under GSP, it is not going to be recognized by U.S. companies and companies in those developing countries that it is economically worthwhile making the investments to get the products from those countries into the United States.

Mr. FRENZEL. I would agree, although as you look at GSP it certainly has not been a huge assistance to the poorest of the poor. In fact, the ADC's have been able to take advantage of it and 150 other poorer ones are not able to provide—at least under current law and custom—very many products to this market?

Mr. COHEN. There has been a very interesting study done, as I am sure you are aware, by the International Trade Commission which suggests that were GSP benefits on certain products denied to a number of ADC's, the developed countries would replace the ADC's as the exporters of those products to the United States.

Mr. FRENZEL. Rather than the less developed.

Mr. COHEN. Exactly. It is very troubling, and confirms what you are saying.

Mr. FRENZEL. If we take a swat at the big six, all we will do is help the EEC and Japan.

Mr. COHEN. That seems to be the suggestion.

Mr. FRENZEL. We are not going to help the poor and the downtrodden.

Mr. COHEN. I certainly believe more needs to be done—more innovative work needs to be done with respect to helping the least developed of the developing countries under the GSP. This concern generated our recommendation for greater flexibility in competitive need limitations for the poorest countries. Perhaps, too, the de minimis level could be raised for the least developed of the developing countries.

Mr. FRENZEL. Thank you very much. Those are all interesting thoughts.

Mr. COHEN. Thank you.

Chairman GIBBONS. Thank you.

Our next witness is from the Sporting Goods Manufacturers Association, Mr. Bruns and Ms. Dennison.

STATEMENT OF HOWARD J. BRUNS, PRESIDENT, SPORTING GOODS MANUFACTURERS ASSOCIATION, ACCOMPANIED BY MARIA DENNISON, DIRECTOR, WASHINGTON OPERATIONS

Mr. BRUNS. Mr. Chairman, gentlemen, thank you for inviting us to be with you this morning to testify on GSP.

On my right is Maria Dennison, director of our Washington office, and I am president of the Sporting Goods Manufacturers Association. I am from sunny Florida. Nice and warm when I left.

Chairman GIBBONS. Good.

Mr. BRUNS. It will be warm when you get back.

Mr. FRENZEL. It is always warm when he gets back.

Chairman GIBBONS. No, the last thing I did when I left there Monday morning was to cover up my plants.

What part of Florida did you leave from?

Mr. BRUNS. Palm Beach.

We don't have any oranges down there, the last frost got them. We do have some cows in trouble.

We at the Sporting Goods Manufacturers Association are free and fair traders. We believe in it strongly. We advocate it. The GSP subsidizes imports and is counter to free and fair trade in our opinion.

All the subsidization is wonderful and we as an industry are being killed with the kindness of the proponents of GSP.

I will get into that more in a moment. We as an industry and we as a Nation have become import junkies. We are hooked, addicted, if you will, to imports and the withdrawal from that addiction can be disastrous to many of the companies in our industry and to those who have now relied desperately on the import subsidizations under GSP.

However, this committee or the administration must be sympathetic to those now hooked on imports irrevocably.

To digress for a moment, we as an industry are not particularly large. We are $13 billion manufacturing, about $24 billion at retail. We are 46 percent of the world market in sporting goods. We are a target for all nations who care to delve in the sports equipment market; we have a $4 billion trade deficit as an industry, which represents 7 percent of the Nation's trade deficit, and we are climbing faster than the Nation as a whole in that respect.

GSP allowed approximately $8.4 billion of imports in 1982 and we estimate that, this year, to be somewhere at $10 or $11 billion. We as an industry are carrying water on both shoulders to support this program. Of the $8.4 billion, $1.2 billion comes out of our industry, or 13 percent of all imports under GSP is coming out of our industry and it is climbing we think in 1984 to 16 percent.

GSP nations produce now 25 percent of all sport products sold in the United States; 25 percent of everything on the shelves in America related to sport and fitness is made in GSP nations. All of it does not qualify as GSP, however.

We see that figure rising to about the 33 percent level shortly. Consider that 95 percent of all baseball gloves are made offshore. We have lost the ability to make a baseball glove. The factories are closed, the dyes gone, the interest is gone. Ninety-eight percent of all inflated goods, everything with air in it, a soccer ball, basketball, volleyball, are made offshore.

The last great factory in Santa Ana has closed.

Seventy percent of all athletic footwear is made offshore. We have lost entire industry segments as a result of many things, including GSP. Those ugly, bothersome smokestacks that so bothered EPA are now in South Korea, Taiwan, Hong Kong, Singapore, and the Philippines, no longer in Kentucky, Ohio, Indiana, Illinois.

Of the 19 nations that participate in GSP, and 200 domestic industries supporting GSP in the United States, none is carrying a bigger load than the sporting goods industry. We are carrying water on both shoulders and we are standing in it up to our elbows and it won't be long before we are drowned in all this benevolence, altruism and philanthropy.

What do we propose? We don't propose going cold turkey because we are committed to GSP. We can't just drop it. It would destroy many domestic industries that rely on imports. Once you close a factory and source offshore you cannot reverse that trend.

We do think that this committee and the administration should consider a careful withdrawal over the next decade. We would like to see strong language on exclusions as we plan to justify additional exclusions and that process can be very cumbersome and difficult, believe me, despite what you have heard at this microphone and will continue to hear.

We think stiff penalties ought to be brought on nations who are offending in such ways as counterfeiting, trademark pirating and nontariff barriers. The present language and present attitudes we don't believe to be tough enough to bring a reversal of this on in the next decade. Personally, I believe a 10-year renewal is far too long. Too much damage can occur before we seriously look at it again. Five years would be far better.

The optimum solution would be a phased withdrawal. Dropping GSP is too large a penalty for those already hooked or addicted to it.

Unqualified renewal would spell extreme hardship for our industry and we believe other industries.

This has cost us as an industry 45,000 jobs directly and indirectly 150,000 jobs. We do remind everyone that it is only Americans with jobs that ring cash registers. Americans without jobs do not buy very many sporting goods or anything else for that matter.

Mr. Chairman, we thank you for the opportunity to come before you and we do have additional charts to submit as part of our testimony which we will deliver to the committee.

[The prepared statement follows:]

STATEMENT OF HOWARD J. BRUNS, PRESIDENT, SPORTING GOODS MANUFACTURERS ASSOCIATION

Mr. CHAIRMAN. My name is Howard Bruns, President of the sporting goods manufacturers association, headquartered in North Palm Beach Florida. Thank you for providing our industry with the opportunity to testify on the possible renewal of the generalized system of preferences, a law which has the potential for making import 'junkies' out of the unfortunate who are caught in the cost/selling price squeeze. By import 'junkie', we carefully refer only to those manufacturers who have been forced to source offshore, and to those chain stores who have been forced to buy direct from foreign-based factories to stay competitive. Using the street vernacular, a 'junkie' is 'hooked' on something which he has a difficult time doing without. In a word, segments of our industry are 'hooked'.

While the SGMA believes in free trade, it does not condone subsidization of imports or exports. The GSP program subsidizes imports. The SGMA is not anti-imports in any manner. However, as expressed clearly in the 'aluminum bat case' with Japan, the SGMA does view reciprocity as a course of action. GSP, as a program, does not offer the leverage of reciprocity, the importance of which I will come back to in my remarks.

Now that I have set the stage as to my position, may we spend a moment to further identify our industry. The SGMA speaks for $11 billion in manufacturer shipments or $18 billion at retail which is approximately 80 percent of the sports equipment industry. The SGMA and its sister organizations represent approximately 3,900 athletic clothing, footwear and hard goods equipment manufacturers and distributors of sporting goods product in the U.S.

I serve as Chairman of the Department of Commerce-sponsored Recreation Industries Council on Exporting (RICE) and I am an active member of the World Federation of Sporting Goods Industries. The U.S. sports market is 40 percent of the world sports market. We are an industry committed to free and fair trade and to developing export markets around the world for the sale and use of U.S. sporting goods product. We are the only industry, of which I am aware, whose association has set up a school to teach manufacturers the how-to's of exporting . . . our International Marketing Institute for Sports. In the last 6 months, we have graduated 96 manufacturers from that program.

We live in a nation that invented baseball, yet 95 percent of all ball gloves are made offshore; our school children love to kick and throw balls, yet 90 percent of all balls are made offshore; we are a nation of runners, yet 70 percent of performance footwear, whose leather component parts are eligible for GSP, is made offshore. It is important to repeat—we believe that free and fair trade implies equal opportunity to trade, as a prerequisite for the system of international trade to work over time.

The Generalized System of Preferences, when first enacted, was imbued with the noble intention of promoting economic and political stability in developing nations by allocating U.S. Market opportunities away from developed countries towards the least developed countries. It was not meant to export jobs . . . but it did! In the resulting 10 years since GSP was enacted, we have seen: (1) U.S. industrial capacity flee the United States to GSP beneficiary countries; (2) Korea, Taiwan, Mexico, Brazil, and Hong Kong, who receive 64 percent of GSP's benefits, either embargo imports of U.S. sporting goods or tax them at rates of up to almost 400 percent; (3) the loss of U.S. raw material and component parts industries.

GSP, as presently practiced, has made the U.S. sporting goods industry a victim of a program that was based on good intentions. The prospect of foreign industries capitalizing on low labor rates and preferential tariff treatment forced U.S. manufacturers to close domestic plants and source product offshore so as to remain price competitive with foreign competitors in the U.S. marketplace. To balance off a complete domination of the U.S. marketplace by foreign producers, American manufacturers decided to take advantage of the loopholes existing in the GSP program. And, now we cannot stop ourselves. We have lost control. We have become import "junkies". We are "hooked". Once you close a factory and source offshore, you cannot reverse it—not without a tremendous investment, incentives and assurances for the long-term. GSP is a disincentive.

With continuation and proliferation of the GSP program, we see the potential for losing other segments of the sporting goods industry until we no longer have a domestic industry. And we are typical of American consumer products industries. Gentlemen, you have a problem best characterized as an enigma.

There is a diversity of opinion in the sporting goods industry on whether to support reauthorization of GSP or to do away with it altogether. Why? Because we, too, have become "hooked" on imports to the "max". I am not here today to offer support or oppose reauthorization in the short term . . . but to begin the process of communication of the present circumstance and the longer range implications for a continued loss of American jobs. Few American businessmen like GSP intellectually, but pragmatically for some, it is a different story. They fear losing it would cause irreputable harm to their business.

I would like to take the opportunity to speak to what I believe to be at issue today. The foremost is the effect the present GSP system has had on different segments of our industry.

The Administration proposes that a renewed GSP program be structured to limit GSP treatment for highly competitive products. We agree wholeheartedly, but question the structure the Administration has proposed. While the Administration's bill proposes to lower the competitive need limits to 25 percent of total imports or a ceiling of $25 million, it has left a loophole in the law allowing the President to lift those limitations in the interest of national security. I submit that this caveat allows us to sacrifice an industry in order to obtain a bilateral agreement on another matter. Secondly, I feel that once a country hits the competitive need limitation they be graduated in that product forever.

In addition, after surveying our membership on the issue, it is felt that the GSP program, if reauthorized, should contain changes in the local content rule: Either the 35 percent local content rule be replaced by a provision enabling the value of U.S. materials and fabricated parts to be counted to a limited extent toward the 35 percent, or that a provision be mandated that allows goods manufactured in less developing countries to qualify for GSP treatment, if the developing country portion of the product is at least 35 percent of the non-American total. Presently, U.S. parts and materials made with American labor are not counted toward satisfying the GSP rule, which stipulates 35 percent of the appraised material value of goods exported to the U.S. orginate in the less developed exporting country.

We urge that footwear continue to be exempted from GSP treatment. We have all, but lost, the domestic athletic footwear industry. If footwear were to be granted GSP eligibility, we would wipe out entirely any hope of maintaining our domestic manufacturing base, and be the recipients of such trade diversion activity not previously imagined or experienced.

Last year, the unemployment rate in the U.S. leather products sector rose to a staggering 17.4 percent. Again, for American manufacturers to be competitive with

the Japanese, Brazilians, Koreans and Taiwanese who started-up industries with an eye at GSP treatment, the decision was made to establish offshore operations. If these products were exempted from GSP treatment, perhaps over the next 10 years, we could bring back the glove and inflated ball industry to the States.

But we are not asking for an exclusion of baseball gloves at this time, since it does precious little for this nation, nor is there an overwhelming interest on our manufacturers' part to do so. Why? (1) the risk is high. (2) The investment is enormous because we have lost the know-how. And it is in No. 2, that you should be concerned, expecially as witnesses testify that GSP has not had any adverse impact on the U.S. economy in terms of production, employment or balance of payments . . . and that it furthers the export goals of U.S. producers.

On that subject, another example of the present inadequacy of the GSP program is its lack of reciprocity. Intrinsic to our unilaterally granting trade favors to less delveoped countries is the extent to which they will assure the U.S. equitable and reasonable access to their markets. Korean golf clubs, shafts and component parts enter this country duty-free. For American manufacturers to export there, U.S. golf equipment into Korea is assessed duty and commodity taxes totalling 395 percent. This figure is up by 100 percent over 1982. We find this same situation in a host of other product areas, i.e. bicycles, inflatables, fishing equipment, etc. Brazil, a recipient of GSP benefits, bars the importation of U.S. sporting goods product, yet Brazil's goods come into the U.S. duty-free and she attends all of our sporting goods trade shows. While GSP affords manufacturers the opportunity to petition for a product's removal, the U.S. manufacturer must prove injury. At times, injury is too vague to prove in precise numbers. Rather the law should ask manufacturers to prove adverse impact, which when it comes to trying to penetrate an export market or prove damages resulting from trademark counterfeiting, a case can be built.

Lastly, why should we give Taiwan $1.8 billion of free access, if Taiwan doesn't take steps to shut down those who are trying to destroy our trademarks? We see some evidence of Taiwan beginning to cooperate on this matter, as she appears frightened by the potential for mandating in legislation, that a country's eligibility for duty-free treatment be conditioned to its protection of American trademarks, patents and copyrights. American sporting goods manufacturers are spending millions of dollars promoting brand-name identification, along with millions invested in product research and development, only to have Korea, Taiwan, Mexico, Brazil and the Philippines, to name the principal offenders, take no steps to protect U.S. intellectual property rights. Manufacturers in all segments of our industry are finding increasing cases of trademark counterfeiting and pirating occurring in these countries. Add to product development and promotion costs, the dollars that American manufacturers are expending to track down the counterfeit culprits. In the soft goods area, where most of the counterfeiting and infringing is taking place, the operations are so transferrable, it is almost impossible to find the criminals. When you do, punishment is so negligible, that it is a joke.

According to a recent ITC investigation, our manufacturers are estimated to lose almost a billion dollars in sales domestically and internationally from this spurious practice. We urge the Committee to use the leverage that GSP benefits provide to crack down on counterfeiting. If the Committee is not in receipt of the Anti-Counterfeiting coalition's suggested amendments in this regard, we would be happy to provide you with a copy.

In Summary:

I encourage this committee to take a broad look at GSP and what effect it has on American jobs, American manufacturing know-how, and irrevocable ramifications, even if it were dropped at this moment.

As you review testimony, keep in mind some hard-working businessmen of unquestionable integrity, have become import 'junkies' through no fault of their own. And withdrawal will be extremely painful, even a phased withdrawal.

GSP *alone* did not cause the mounting trade deficit or put 10 million Americans out of work. It helped.

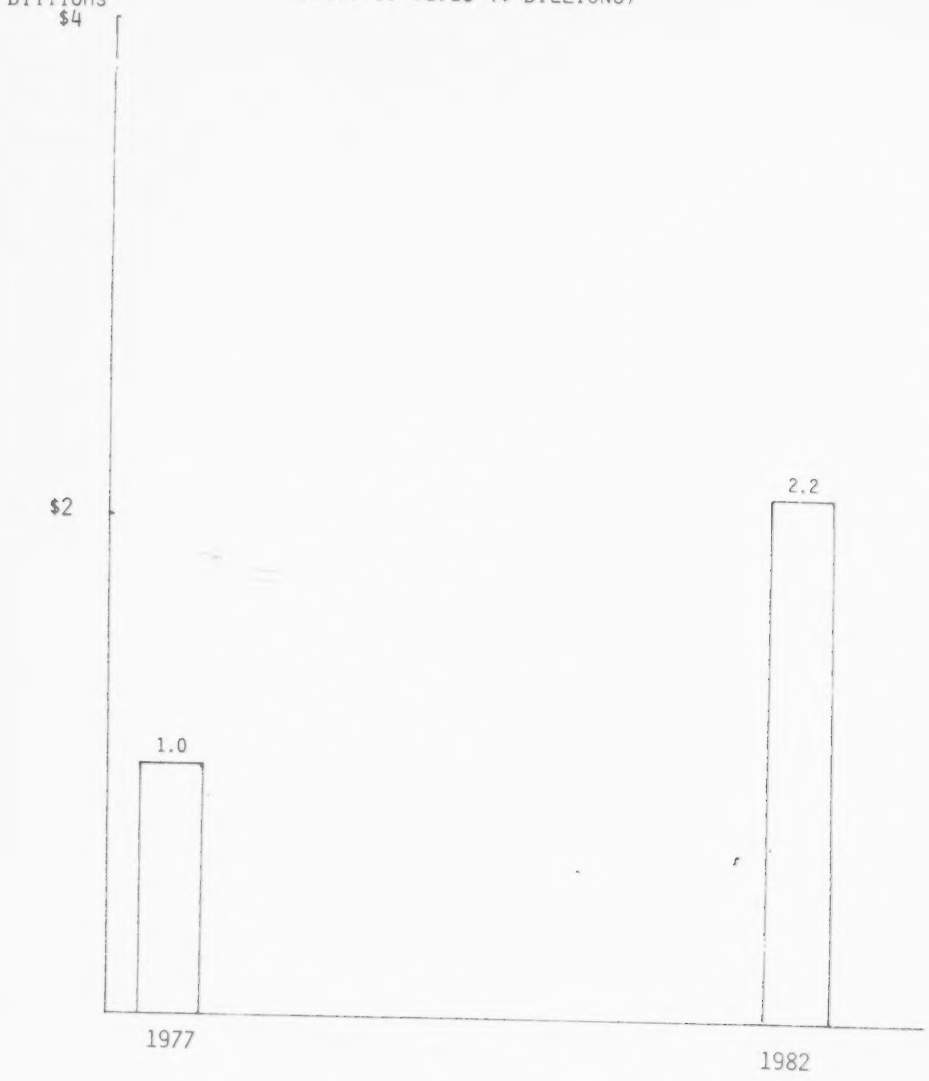
GSP is well-intentioned and has helped those nations it was intended to help. However, in the interest of protecting U.S. wealth, we have managed to shift our own wealth to other nations . . . irrevocably in some instances. Those industrial smokestacks that once stood in Ohio, Kentucky, Tennessee and Missouir now stand in Taiwan, Korea, Hong Kong, the Philippines Brazil and rising slowly in China. The question: How many more will be shifted, that in the process, deny U.S. market accessibility?

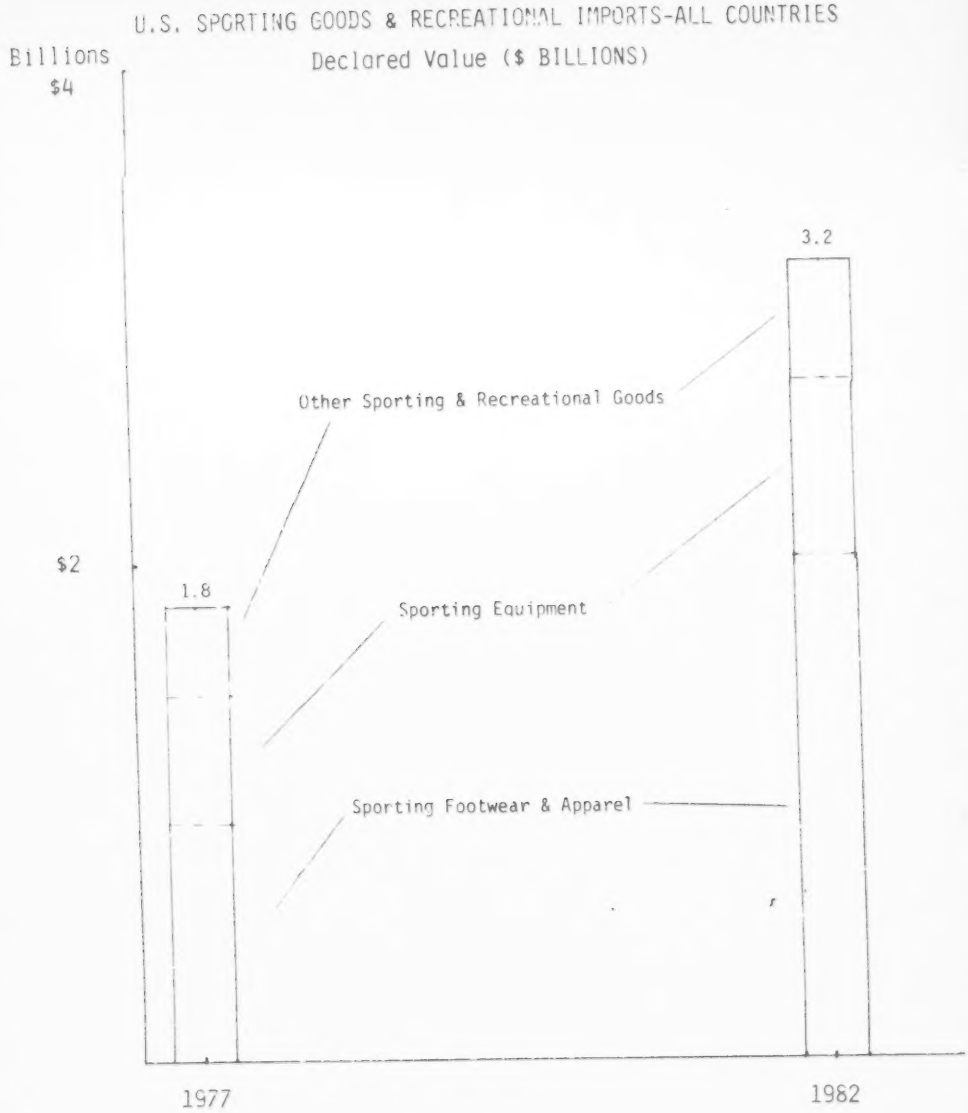
Only Americans with jobs ring cash registers. Americans without jobs do not buy very much.

Mr. Chairman, thank you again for affording us the opportunity to testify before you and the distinguished members of the House Ways and Means Committee. I am willing to answer any questions that you may have or to volunteer our staff for more extensive data collection, if it helps the educational process.

U.S. SPORTING GOODS & RECREATIONAL IMPORTS
-GSP COUNTRIES OF ORIGIN

Declared Value ($ BILLIONS)




U.S. SPORTING GOODS & RECREATIONAL IMPORTS-ALL COUNTRIES
Declared Value ($ BILLIONS)
Billions
$4
$2
3.2
1.8
Other Sporting & Recreational Goods
Sporting Equipment
Sporting Footwear & Apparel
1977
1982

Chairman GIBBONS. And we will keep the record open until the 24th of this month for any additional materials.

This is very interesting testimony. I ran into a case where in the Philippines they had an industry that was making Spalding golf balls as I recall. I think it was Spalding. And the Spalding people didn't even know about it. They were just out-and-out forgeries.

Mr. BRUNS. Yes.

Chairman GIBBONS. And I must say that our Government has not been very vigorous in moving against the Philippines or very successful in moving against the Philippines. Maybe it is because the Government is in such terrible shape, they can't control what is going on in their own country through any system, but it disturbed me. Do you know of any other cases like that? Are you familiar with the Spalding case?

Mr. BRUNS. We are very familiar with Spalding. I think Maria Dennison would be our resident expert on that.

Ms. DENNISON. Mr. Chairman, there have been numerous instances of counterfeiting, trademark pirating, and infringement in primarily the GSP countries which seem to be the havens of counterfeiting. We have many cases involving athletic footwear companies, clothing companies, as well as hard goods equipment companies, for example, the case with the golf balls. There is counterfeiting in baseball bats, inflatable goods—nothing like seeing the NBA playing a tournament game and having a ball falling apart on you. I think that would drive home the point very directly.

We see this problem also happening in Brazil. We have a particular problem there. We can't get sporting goods into that country. Brazil is a primary beneficiary of the GSP and one of the largest havens for counterfeiting activity. Many of our companies also have problems in the Philippines, Taiwan, and Korea.

Chairman GIBBONS. I wonder if you could document that. I don't want to pick on the Philippines or Brazil, but that is the first I had heard about Brazil and counterfeiting. I have heard other things.

Ms. DENNISON. I would be happy to provide it. We have testified before the House Energy and Commerce Committee as well as the ITC and I would be happy to give you evidence of the problems.

Chairman GIBBONS. Fine.

[The information follows:]

SPORTING GOODS MANUFACTURERS ASSOCIATION,
Washington, D.C., February 22, 1984.

Hon. SAM GIBBONS,
Chairman, House Sub-Committee on International Trade, House Ways and Means Committee, Washington, D.C.

DEAR CONGRESSMAN GIBBONS: This letter is in response to your request for information relating to the counterfeiting problems experienced by the U.S. sporting goods industry.

American sporting goods manufacturers are spending millions of dollars promoting brand name identification, along with millions invested in product research and development, only to have Korea, Taiwan, Mexico, Brazil and the Philippines, to name the principal counterfeiting havens, take no adequate steps to protect U.S. industrial property rights. Add to product development and promotion costs, the millions that American manufacturers are spending to track down the counterfeit culprits. And, when you find the offenders, punishment is so negligible that it is a joke.

Our manufacturers question why we could give a country like Taiwan $2.3 billion of free access, if Taiwan does not take steps to shut down those who are stealing our

technology, brand names, product integrity and corporate credibility, as well as American jobs.

To show the imensity of what's at stake, here are some specific case references:

In 1981, Taiwan exported $900,000 worth of sporting goods equipment, a 30 percent increase over 1980. In 1982, they exported $1.1 billion in sporting goods, a 22 percent increase. These increases took place despite a world-wide economic recession. Their export market covers 120 countries, with the U.S. on top, Japan second, and Australia third. Other main export markets included the U.K., West Germany, Canada and the developing Third World Countries. It is interesting to note, that when our manufacturers find counterfeit Taiwanese product, they find them appearing most in these countries. We project that much of the increase in Taiwanese-produced exports is due to trade in counterfeit product. We make this assumption, based on reports from our manufacturers of Taiwanese-produced counterfeits seized and reported being sold in U.S. and export markets. At the same time Taiwan increased her exports 20 to 30 percent, the U.S. sporting goods industry experienced a growth in export trade of 4 percent.

Three years ago, a U.S. manufacturer was able to locate a Taiwanese producing counterfeit basketballs and sue for damages. The legal fees expended by the U.S. company amounted to about $25,000. This does not include the cost spent in tracking down the counterfeiter. The damages awarded to the U.S. manufacturer, as a result of litigation, were $45.00. Here we have an all-too-common situation, where an American company is expending thousands of dollars to protect its name and technology, only to have Taiwanese courts inflict a punishment that does nothing to intimidate the counterfeiter from pursuing the illegal activity as soon as he leaves the courthouse. The same manufacturer found shipments of counterfeit balls showing up in lots of 10,000 at a time, in Chile, Colombia, Venezuela, Greece, Indonesia, and Malaysia that were also Taiwanese-produced. Over the past year, this illegal activity has been estimated to have cost the U.S. company $1 million in lost sales at the wholesale level.

A U.S. Golf club manufacturer is suffering from counterfeits of its products being sold in Great Britain and Australia. Taiwanese producers in one instance, are producing an exact copy with one slight variation: They have changed one letter in the trademark name. The product itself is an exact copy of the genuine good and it has been exhibited at U.S. trade shows. This company with sales in the $1 to $25 million range, estimates that it spends approximately $150,000 a year, trying to monitor and prevent the counterfeiting of its products.

A large athletic footwear product spends more than $300,000 a year to protect its trademarks. In Korea, not too long ago, they managed to stop the export of 50,000 pairs of uppers, bearing their trademark and whose composition was confusingly similar to the genuine shoe. This major footwear company estimates that its loss in sales revenues runs into the millions of dollars as the company has a high international profile. In another case, Federal Marshals seized close to 1,000 pairs of counterfeit shoes, being sold in 16 outlets in New Jersey. The distributor was supplied with the counterfeit merchandise by a Korean manufacturer.

A well-known athletic clothing manufacturer has trademark and infringement problems in the Philippines and Mexico, with knock-offs of its clothing finding their way into the Far East and U.S. marketplace. Protection and legal costs are running this company about $100,000 per year.

As mentioned in our testimony on renewal of the GSP program, a manufacturer cannot register a trademark in Brazil, unless use can be proved. As Brazil presently embargos U.S. sporting goods, a manufacturer cannot prove use. In the meantime, Brazilians are locally producing counterfeit product and smuggling it into Venezuela, Colombia and Paraguay. A U.S. manufacturer in this situation has no recourse and suffers a great market loss. If Brazil, some day, opens its markets to imported U.S. sporting goods, not only will the cost of buying back the imported U.S. trademark be prohibitive, but the counterfeit activity, so entrenched, that the U.S. manufacturer will not be likely to penetrate the Brazilian market with any type of success.

A new example of product counterfeiting that we are presently tracking is exercise and gymnastic equipment. It is interesting to note that this product category represents the fastest growing segment of the U.S. sporting goods industry. However, while the overall market for such products is increasing, some companies' market share is decreasing. The wholesale price being charged for the illegal imports, principally coming in from Taiwan, appear to be approximately one third of the wholesale price for U.S. manufactured product.

We are aware of three physical fitness manufacturers presently suffering from the commercial counterfeiting of their product. All will be providing the Depart-

ment of Commerce with a description of their problem for discussion with Taiwanese officials during bilateral talks scheduled for April 23rd. One of these companies anticipates that it will be defending itself in product liability suits, as the counterfeit, which bears a phony U.S. trademark, does not hold up under normal usage.

The problem of commercial counterfeiting is so great that it demands Government action. In the cases mentioned, one can see that the sale of counterfeit merchandise clearly works a fraud on the consumer and can impair the safety of the consumer. Most seriously, this practice undermines the integrity of the international trading system.

While the Federal Government cannot alone combat this international problem, it can strengthen our national laws to protect American industry and American consumers. We believe that reauthorizing legislation for the Generalized System of Preferences affords Congress the means for waging battle against the rising tide of counterfeit products emanating from GSP beneficiary countries. Linking eligibility for GSP treatment to individual country efforts to protect U.S. trademarks, patents and copyrights will facilitate the intended purpose of not only putting tools in the hands of our Government to make a serious dent in this rising crime, but encourage other nations to adopt unfair trade practice laws that put some risk into this multibillion underground business.

Thank you for your consideration of our problems as they relate to criteria for extending the Generalized System of Preferences.

Sincerely,

MARIA DENNISON,
Director, Washington Operations.

Chairman GIBBONS. It is obvious that if we do extend GSP, we are going to have to put some conditions on it, and the counterfeiting is something that worries me. I don't pretend to be an expert on all that, but if you take a product like a Spalding golf ball and manufacture a ball in the Philippines and call it a Spalding and sell it in this country and you can't tell the difference between that one and any other ball, that is a tough situation, that is stretching the first amendment a little too far, I think. Yet, our Government seems to be almost powerless in dealing with the Philippines in being able to get any relief from them on a case that is as flagrant as that.

You have made some good suggestions and we will see what can be done about it.

Mr. BRUNS. Thank you.

Chiarman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. I am interested in that, too. I think all of us are very interested in that. We have all heard stories of Levis being produced illegally in Taiwan, Korea, the Philippines, so on. But I think we would be interested in knowing the specifics as they appear to you, as you can best present them to us, specifically referring to the countries.

We do not for a moment believe that America is a land completely free of violations of the copyright laws. We don't expect that any country in the world can completely control what goes on. However, when violations are called to their attention, I think governments have a responsibility to react. Most of the countries you named, I believe, are signatories, aren't they?

Mr. BRUNS. Yes.

Ms. DENNISON. Yes.

Mr. FRENZEL. Signatories to the International Treaty.

Ms. DENNISON. We can't get an anticounterfeiting code within GATT because some of the countries will not agree to even discuss counterfeiting as an unfair trade practice. But to bring the problem of counterfeiting really home, you take something like gymnastic

equipment that we are now seeing counterfeited, and that product illegally entering this country and being sold through the marketplace, and if that product is not constructed using the quality development and research that the American manufacturer would use in his product and you suffer product liability problems, then you have a safety problem and the question of who is going to pay.

Mr. FRENZEL. Are you aware of any product liability suit that has been successful against a bona fide manufacturer for something that somebody else made without consent?

Ms. DENNISON. No, I have not come across that, but as you know, our tort system as presently implemented in this country does not require a person to prove fault.

Mr. FRENZEL. I suppose any court that can draw a congressional district like mine can do something as silly as that.

Ms. DENNISON. All one has to do is prove there is injury and it operates on the deep pocket theory that you, the manufacturer, apparently must have the most money so you are going to have to pay whether or not it is your product.

Mr. FRENZEL. I don't want to get into the product liability, but I would like to know if you are aware of any such ruling. Obviously, copyright violations are a problem.

Mr. BRUNS. We are aware of such suits. They are defensible, but the costs to extract yourself from them is considerable. There have been suits against gymnastic companies with the wrong name on it, suits against products that came in with the wrong name and the wrong company got sued and the cost of extracting yourself from that litigation is considerable.

Mr. FRENZEL. I understand that there are some liabilities that go with being the premier performer in any field.

You are suggesting that the program should not be for 10 years. That was a tough one. We again fussed with that in the CBI debate as you recall. It was our conclusion that that was—if you didn't have a 10-year program, it was hard for people to take advantage of it, to gear up for it. If you really meant the program, you had to have it long enough to attract certain kinds of investment. I take it your suggestion is that we phase the program out before 10 years?

Mr. BRUNS. Absolutely.

Mr. FRENZEL. And it should be structured so that no new what you call dependents are created within the timeframe of the extension?

Mr. BRUNS. No. We think that GSP in certain nations has already run its course and that is part of the phasing out. We support GSP. I support it intellectually, philosophically, but the fact we as an industry are paying the bill on this gives us only two options; one, to convince this committee and others invovled to either phase it out or go for exclusions. If we saw a phasing out of the $8 billion going to 6 or 5 or 4 rather than 8 to 10 to 16, we would take a different tact on exclusions.

But if we see 10 years, say, a tendency to proliferate the subsidization of imports, we would go for exclusions on ball gloves, inflated goods, and that would give us a level of fair play. But right now with us picking up the tab for 13 percent of this Nation's subsidization of those Third World countries we have no alternative but to look for some reduction in it or exclusions.

Mr. FRENZEL. How much of the goods of your association are now manufactured in the United States?

Mr. BRUNS. Now manufactured in the United States would be in the area of 55 percent.

Mr. FRENZEL. And if the GSP is extended in substantially the same form, how much of your production would be manufactured in the United States in 5 or 10 years?

Mr. BRUNS. We would judge that we will lose 75 percent of our total production at the rate we are going and that is highly substantial. We feel 50 percent of our production will be in the GSP nations. Now it is 25 percent and climbing dramatically. They have targeted golf as an industry, as evidenced by the ability of the Philippines to even make a golf ball. They are taking us an industry at a time. They have already 70 percent of footwear. If things are not done, they will own 100 percent of athletic footwear. They own ball gloves, inflated goods, they are working on golf, tennis, and we feel that we are just going to be chipped away at for the next 10 years.

Mr. FRENZEL. How much of your perceived world market does the U.S. represent?

Mr. BRUNS. Of the world market, the world market is about 50 billion in retail, 25 billion at manufacturing ship. We export 800 million, bring in $4.8 billion at wholesale market value.

Mr. FRENZEL. What do you sell in the United States? What is your market here?

Mr. BRUNS. The size of the market.

Mr. FRENZEL. If the world market is 50, what is ours?

Mr. BRUNS. The United States is 46 percent so we are about 23 at retail.

Mr. FRENZEL. Thank you very much.

Chairman GIBBONS. Thank you very much.

Our next witness is Mr. John Olinger, Bread for the World.

STATEMENT OF JOHN P. OLINGER, ISSUE ANALYST, BREAD FOR THE WORLD

Mr. OLINGER. Thank you, Mr. Chairman.

I will summarize my statement and submit the written statement for the record.

Chairman GIBBONS. Go right ahead.

Mr. OLINGER. I am John Olinger. I speak for Bread for the World, a Christian citizens movement with 45,000 members in the United States that supports U.S. Government policies concerned with world hunger. We appreciate this opportunity to testify on the generalized system of preferences before the Subcommittee on Trade of the Committee on Ways and Means.

We wish to commend the Subcommittee on Trade and Representatives Downey and Gibbons in particular, for their successful efforts to include the stable food production plan in the Caribbean legislation.

In our statement on the renewal of the generalized system of preferences, we will address five issues: the need for the generalized system of preferences, the relationship between trade and development, the need to safeguard local staple food production, the

need to include measures to guarantee human rights, and the relation of the generalized system of preferences to U.S. employment.

Developing countries have clearly and often stated their desire for a program of trade preferences. Bread for the World believes that GSP should be renewed with changes. We are particularly encouraged by section 5 of the administration proposal which would exclude the least developed countries from competitive need limits. Although it is not clear that this exclusion will bring immediate benefits to any of the least developed countries, it does at least provide the opportunity for development of new economic sectors and is a move in the right direction.

Trade policies should be consistent with development policies which place the needs of people first. The effects of trade policy do not stop at the customs post. Trade policies affect the allocation of productive resources within a country and therefore have a great role to play in reducing hunger.

Traditionally, trade reform issues have been approached from the perspective that developing countries' needs will best be met by special programs such as GSP. By focusing on the country, rather than on the people, the question of who is likely to benefit from increased trade opportunities is ignored. Trade reforms which consider the distribution of the benefits of trade and economic growth within a country must be developed. In this light, Bread for the World urges the subcommittee to strengthen the development aspects of GSP. We believe that this can be done best by recasting GSP as an integrated trade and development program which would include measures to deal with graduation on a developmental basis, food production and nutrition issues and labor rights guarantees.

GSP deals mainly with industrial goods, but in 1980 agricultural imports accounted for approximately 17 percent of GSP. For many of the less developing countries, agricultural exports still represent the most important source of foreign exchange.

The food needs of developing countries must be taken into account and be balanced against the need to earn foreign exchange from export crops.

Bread for the World urges this committee to incldue among the factors which determine a country's eligibility the extent to which a country is taking steps to meet the nutritional needs of its population. In addition, current GSP law should be amended to deny GSP eligibility to agricultural commodities which are produced at the expense of domestic food production if the beneficiary government is not prepared to take steps to make up deficits in local food production. This would be a significant extension of the policy first enunciated in the CBI.

GSP eligibility should be expanded to include more processed agricultural commodities. Bread for the World encourages the committee to remove the import-sensitivity restrictions on processed agricultural goods from the least developing countries.

Because we believe trade reforms must be evaluated in terms of who actually receive the benefits, Bread for the World advocates the incorporation of a provision that would make GSP eligibility conditional on the guarantee of human and civil rights, including the right of workers to organize and bartain collectively.

The ability of poor people and workers to earn a fair wage and share fully in the benefits of GSP related trade depends as much on their ability to defend their interests as it does on the trade benefits themselves.

The right to organize and seek decent labor conditions is also linked to justice for the U.S. worker. Many businesses leave the United States and relocate in developing countries because wages are low in these countries. In many cases, these low wages are artificially maintained by governments that deny human rights and the workers' right to organize. If the absence of human rights lures industries away from the United States to these developing countries, then the U.S. worker is being asked to pay a high price for his or her hard-won labor rights.

The question is not whether U.S. workers should be protected from competition. The question is whether the U.S. Government should give trade preference to countries which do not allow workers to organize and do not guarantee their citizens' human rights.

Trade policy cannot be considered in isolation for employment considerations. If we are to implement programs such as GSP, we need also to implement strong and effective programs of trade adjustment assistance and legislation dealing with plant relocations. This is particularly important if GSP trade preferences make it possible to export products to the United States duty free from plants which have moved overseas to take advantage of lower wages.

The revision of GSP will be a complex matter and this committee will have to weigh the claims of many interests. Bread for the World encourages the committee to use GSP creatively as a tool in the U.S. effort to reduce hunger in the world and to promote development.

Thank you, Mr. Chairman.

[The statement of Mr. Olinger follows:]

STATEMENT OF JOHN P. OLINGER, ISSUE ANALYST, BREAD FOR THE WORLD

SUMMARY

1. Bread for the World believes that GSP should be renewed, but with changes which will take into account the distribution of the benefits of trade and economic growth in the beneficiary countries as a result of GSP.

2. In particular, this involves close attention to the effect of promoting export agriculture in developing countries on the food and nutritional situation in these countries. In this context we cite the Stable Food Production Plan which was incorporated in the CBI. We urge that GSP eligibility be denied to agricultural goods which are produced at the expense of local food production and in the absence of local government policies that meet the food needs of the people. We also recommend that processed agricultural goods from the least developed countries be removed from import sensitivity restrictions.

3. We advocate the incorporation of a provision that makes GSP conditional on the guarantee of human rights, including the right of workers to organize and bargain collectively. The ability of people to act to end their hunger and poverty is far easier if their rights are protected. The ability of poor people and workers to share in the benefits of GSP-related trade depends as much on their ability to defend their interests as it does on the trade benefits themselves.

4. We strongly endorse Section 5 of the Administration proposal which would allow the least developed countries to be excluded from competitive need limits.

5. We are opposed to the increased emphasis that the Administration proposal seems to be placing on using GSP as a means of gaining increased U.S. access to developing country resources and markets.

6. Finally, we feel that the commitment to renewal of GSP must be matched by a strong commitment on the part of the U.S. government to deal effectively and quickly with the effects of trade-related unemployment in the U.S.

STATEMENT

Bread for the World, a Christian citizens movement with 45,000 members in the United States that supports U.S. government policies concerned with world hunger, appreciates this opportunity to testify on the Generalized System of Preferences before the Subcommittee on Trade of the Committee on Ways and Means. In the past two years, Bread for the World members have worked on international trade issues and for the first time addressed U.S. trade policy in the Caribbean Basin Initiative. Bread for the World wishes to commend the Subcommittee on Trade, and Representatives Downey and Gibbons in particular, for their successful efforts to include the Stable Food Production Plan in the Caribbean legislation.

In our statement on the renewal of the Generalized System of Preferences we will focus on five issues: the need for the Generalized System of Preferences, the relationship between trade and development, the need to safeguard local staple food production, the need to include measures to guarantee human rights, and the relation of the Generalized System of Preferences to U.S. employment.

1. THE GENERALIZED SYSTEM OF PREFERENCES

Developing countries have clearly and often stated their desire for a program of trade preferences. Trade accounts for a significant amount of economic activity in these countries. In 1982, developing countries earned $518.7 billion from exports; oil exporters accounted for $214.7 billion of this and non-oil exporters for $304 billion.

The poorest developing countries depend on raw materials and primary agricultural products for the bulk of their exports. The prices of many of these goods have been dropping while the prices of manufactured goods and oil have remained stable or risen. These countries must therefore export more and more raw materials just to keep purchasing the same amount of manufactured goods and oil. If they cannot export more, then they are forced to cut back on imports. In fact, in 1982, developing countries cut their imports by 11.6 percent.

The International Monetary Fund reported in 1982 that the terms of trade for non-oil developing countries declined to their lowest level in twenty-five years. Despite cuts in imports, the overall value of developing country exports has not kept up with imports, creating a serious trade deficit. In 1975, this deficit was $28 billion; by 1980, it has risen to $54 billion. If developing countries are to decrease their reliance on raw material exports and close the trade gap, then some form of trade preference program is needed.

Bread for the World believes that GSP should be renewed with changes. We are particularly encouraged by Section 5 of the Administration proosal which would add a new subsection to section 504, excluding the least developed countries from competitive need limits. Although it is not clear that this exclusion will bring immediate benefits to any of the least developed countries, it does at least provide the opportunity for development of new economic sectors and is a move in the right direction.

The increased emphasis which the Administration proposal seems to be placing on using GSP as a means of gaining increased U.S. access to developing country markets and investment opportunities seems to be a step in the wrong direction. When GSP was introduced it was recognized that the program was not bilateral. It was an attempt to assist developing countries to increase their trade capacity without placing them in the usual position of providing reciprocity for U.S. goods. To the extent that any new version of GSP retreats from this commitment to non-reciprocity it would weaken the purpose of GSP and make it less beneficial to developing countries. If this provision is to apply only to the most advanced developing countries, the newly industrialized countries, perhaps the problem the provision addresses could be handled better through a process of graduation.

2. TRADE AND DEVELOPMENT

Before advancing to specific recommendations for GSP renewal, we would like to comment on the current discussion of U.S. trade policy. This discussion is generally carried on in terms of a choice between free trade and protection.

Free traders argue that there should be no restraints on trade because competition among producers is in the best interest of all countries. Placing conditions on trade, they argue, is an interference with the free working of the market. This ig-

nores the fact that there are already many restraints on the market. The existing structure of international trade makes it difficult for new producers to enter the market. In addition, there have always been political restraints on trade. Recently, the U.S. used the threat of withdrawal of trade benefits in order to encourage Romania to alter its emigration policies.

Protectionists argue that it is necessary to protect domestic production before imports are admitted. They would impose duties, quotas, domestic content rules and other measures to restrict access to the U.S. market. They would thus restrict the opportunity for most developing countries to diversify their economic base.

Casting the argument in free trade/protection terms obscures the need to consider the creation of a just and more secure trading system which focuses on the development of the less developed countries.

Trade policies should be consistent with development policies which place the needs of people first. The effects of trade policy do not stop at the customs post. Trade policies affect the allocation of productive resources within a country and therefore have a great role to play in reducing hunger.

Traditionally, trade reform issues have been approached from the perspective that developing countries' needs will best be met by special programs such as GSP. By focusing on the country, rather than on the people, the question of who is likely to benefit from increased trade oppotunities is ignored. Trade reforms which consider the distribution of the benefits of trade and economic growth within a country must be developed. This is necessary to ensure that more open trade policies help and do not harm the poorest and most vulnerable people overseas or in the U.S. Trade policies also may be used to encourage developing countries to meet the needs of poor and hungry people if they do not already do so.

To the extent that more open trade policies may result in economic growth, the benefits of which are unequally distributed, within a country, they may also pose a threat to global security. In 1981, eleven politicial and religious leaders endorsed a statement on hunger and global security which said, in part,

"Ever greater numbers of people perceive the disparity between their own continuing deprivation and the prosperity of others, and judge their predicament to be neither just nor inevitable. As this perception grows, so does the likelihood of social unrest and violence. These, in turn, often bring disruptions in the flow of essential materials, [and] adverse effects on the world economy. . . ."

This statement was issued in support of the Hunger and Global Security Bill, one section of which dealt with trade preferences. Bread for the World believes that this concern can be applied to present consideration of GSP.

In most cases, creating a just and secure trading system means placing different restrictions and conditions on trade than is usually done. Because these measures violate free trade does not mean that they are protectionist in intent.

In this light, Bread for the World urges the Subcommittee to strengthen the development aspects of GSP. We believe that this can be done best by recasting GSP as an integrated trade and development program which would include measures to deal with graduation on a developmental basis, food production and nutrition issues and labor rights guarantees. We believe that a unified and consistent rewriting of GSP would be better than simply trying to amend the existing administration proposal.

3. GSP AND AGRICULTURE

GSP deals mainly with industrial goods, but according to USDA figures, in 1980 agricultural imports accounted for approximately 17% of GSP. For many of the less developed countries, agricultural exports still represent the most important source of foreign exchange and probably will continue to play that role for some time to come.

But the food needs of developing countries must be taken into account and be balanced against the need to earn foreign exchange from export crops. The Philippines, for example, has a highly developed export agriculture sector that produces coconut products, sugar, bananas and pineapple for export. Despite this agricultural abundance, the Filipino population suffers from high levels of malnutrition. In 1973, it was estimated that 70% of the Filipino population received less than the reommended daily intake of calories. There is no reason to believe that this level has declined significantly in the intervening years. Eighty per-cent of pre-school children are thought to suffer from malnutrition. In fiscal year 1982, over two and a half million Filipinos received U.S. food assistance. In such a situation, it does not make sense to increase incentives to grow export crops by giving unconditional duty-free treatment to these commodities.

One possible approach to this problem is contained in the recently enacted Caribbean Basin Economic Recovery Act. That program includes a Stable Food Production Plan which seeks to ensure that duty-free treatment granted to sugar and beef does not harm the nutritional status of the population in the countries which receive the benefits. The importance of this issue was highlighted in the recently published "Report of the National Bipartisan Commission on Central America," where it was reported that despite initial reductions in malnutrition, the incidence of malnutrition has returned to the levels of the 1950's. This recurrence occurred despite the strong export-led growth of the 1960's and early 1970's.

Bread for the World urges this Committee to include among the factors which determine a country's eligibility for GSP beneficiary designation the extent to which a country is taking steps to meet the nutritional needs of its population. In addition, current GSP law should be amended to deny GSP eligibility to agricultural commodities which are produced at the expense of domestic food production if the beneficiary government is not prepared to take steps to make up deficits in local food production. This would be a significant extension of the policy first enunciated in the CBI.

GSP eligibility should be expanded to include more processed agricultural commodities. At present, although many processed commodities are eligible, many are still subject to duty because they compete with production in the U.S. In 1981 the World Bank stated that if the duty were removed on processed agricultural commodities the increase in revenue to developing countries would probably be greater than the revenue from GSP itself. The World Bank concluded that such an action would have the greatest effect on the poorest 90 developing countries which have not yet been able to develop processing industries. Removal of these duties would mean that export revenue could be increased without necessarily having to grow more export crops and possibly jeopardizing local food production. Bread for the World encourages the Committee to remove the import sensitivity restrictions on processed agricultural goods from least developed countries.

4. GSP AND HUMAN RIGHTS

Because we believe trade reforms must be evaluated in terms of who actually receives the benefits, Bread for the World advocates the incorporation of a provision that would make GSP eligibility conditional on the guarantee of human and civil rights, including the right of workers to organize and bargain collectively, for the citizens of otherwise eligible countries. For many, human rights have been defined in terms of free speech and political prisoners. The issue is far broader. The ability of people to act to end their hunger and poverty is a far easier task when their rights are protected. The ability of poor people and workers to ear a fair wage and share fully in the benefits of GSP-related trade depends as much on their ability to defend their interests as it does on the trade benefits themselves. The National Bipartisan Commission on Central America stated that "[a]ssuring an equitable distribution of economic benefits will require both job-oriented development strategies and trade unions to protect workers rights."

Brazil, for instance, attained high rates of economic growth in the 1960's and 1970's based on strong expansion of its export trade. But the increased exports did not address Brazil's serious problem of hunger and malnutrition. This rapid growth occurred while civil liberties were suspended. Union and peasant leaders were jailed or disappeared. Although there is considerable debate over the figures, there is no evidence to show that the situation of the poorest people in Brazil has improved as a result of this great growth in export trade. It is significant that unions have played an important role in the current opening of the political process in Brazil. In the Philippines the right to strike has been severely curtailed. In South Korea, another country which has placed great emphasis on increasing export production, under martial law many union members and leaders have been imprisoned.

Under existing political situations in many developing countries, poor people have been systematically excluded from the political process. In these circumstances it is unlikely that the benefits of GSP will reach poor and hungry people.

The right to organize and seek decent labor conditions is also linked to justice for the U.S. worker. Many businesses leave the U.S. and relocate in developing countries because wages are low in these countries. In many cases, these low wages are artificially maintained by governments that deny human rights and the workers' right to organize. If the absence of human rights lures industries away from the U.S. to these developing countries, then the U.S. worker is being asked to pay a high price for his or her hard won labor rights.

The question is not whether U.S. workers should be protected from competition. The question is whether the U.S. government should give trade preferences to countries which do not allow workers to organize and do not guarantee their citizens' human rights.

5. GSP AND THE U.S. WORKER

Trade preferences for developing countries inevitably raise the question of the effect of increased imports on U.S. jobs. On the one hand, if developing countries find an open market for their exports in the U.S. they will be able to deal more effectively with their debt problems and also be able to buy more U.S. goods. The result should be an increased opportunity for U.S. exports. Indeed, the Administration has pointed out that developing countries account for nearly 40 percent of U.S. exports and that exports to developing countries are growing faster than those to our other trading partners. On the other hand, many of the industries which offer the most opportunity to developing countries are the industries which are in trouble in the U.S.

Trade policy cannot be considered in isolation for employment considerations. If we are to support programs such as GSP we need also to support strong and effective programs of trade adjustment assistance and legislation dealing with plant relocations. This is particularly important if GSP trade preferences make it possible to export products to the U.S. duty-free from plants which have moved overseas to take advantage of lower wages.

Generally the workers who are most seriously affected by job loss due to trade are women and minorities who have lower educational levels, have a greater likelihood of having a family income below the poverty level and take longer to find new employment. Thus the burdens of adjusting to increased imports are borne by those less able to respond to the changes. A just trading system will take account to this issue as well as the situation of workers in developing countries.

Clearly the revision of GSP will be a complex matter and this Committee will have to weigh the claims of many interests. Bread for the World encourages the Committee to use GSP creatively as a tool in the U.S. effort to reduce hunger in the world and to promote development.

Chairman GIBBONS. Well, sir, you have certainly made some interesting suggestions. One of the things that worries me is that we try to encourage everybody to develop a basic system of agriculture and we get a lot of what we call import substitution type of production which sometimes equates to a very inefficient system of production and in effect lowers the standard of living of the people entirely. Could you respond to that?

Mr. OLINGER. I don't think that we are saying that every country should be self-sufficient in agriculture and should develop their own import substitute agricultural sector. There are many countries which have done well enough and continue to do well that they can afford to import the food they need at prices which people in their own markets can afford. It is a question really of whether or not in this situation we are encouraging them to move even further away from production of food for themselves at a time when they have to compete in the international market for food which is increasing in price and which the people in their own markets can't afford.

So our approach would not say every country should be growing enough of its own food. Clearly there are many countries in the world that won't be able to do that. In the absence of that, we hope there would be policies that in terms of pricing which would allow everybody in the country to be able to eat.

Chairman GIBBONS. So, in effect, you don't advocate import substitution types of agriculture, but—what?

Mr. OLINGER. What we are advocating generally is that the countries balance the food needs of the population against their needs

to export agriculture. For many countries which produce very high volumes of agriculture commodities, they are earning enough and they can afford the food imports. For many countries in the Caribbean, that are exporting sugar now and a lot of it, they have also run up debts. About half the debt in the Caribbean on a current account basis is for food imports.

So they are digging themselves into a deeper and deeper hole.

Chairman GIBBONS. Essentially the Caribbean is not productive to grow wheat because of the climate and soil and all that. Truthfully, I guess they put too much emphasis on sugar. I see them in place of raising sugar they are now growing flowers. I am not sure——

Mr. OLINGER. A good deal of the sugar land could be used for producing crops such as beans and rice which are the staples of the local population, in the Dominican Republic, and so on.

For wheat and corn there is no doubt that most of the tropical countries will be reliant on imports. It would be too expensive and the technology is really too far distant for them to develop tropical strains of the crop.

Chairman GIBBONS. In the Dominican Republic, why are they growing so much sugar when they are having a hell of a time marketing it? And they are competing so tightly. Why are they doing that? Do you know?

Mr. OLINGER. In the 1970's when the price of sugar went up a lot of marginal land, owners of small farms essentially, and contract producers, moved into sugar and moved in on a contractual basis and then the sugar market plummeted but basically they are under contract to sugar companies both in the Dominican Republic and foreign, and they are caught in the contracts. It is a lot harder to get out simply because they owe debts and they have long-term contracts.

The World Bank in the late seventies, I think, began recommending to the Dominican Republic that a lot of marginal land be taken out of sugar and be rehabilitated, because it was poor land to begin with and it should be put back in food production. Unfortunately, the Government didn't support that. It is going to be a very difficult process to get that back. I think people in Honduras are in a similar situation. In one of the central provinces, a number of cooperatives moved from producing local food crops to producing export crops, sugar one of them, and they got into contractual relationships with a number of Japanese companies.

A number of cooperatives would like to get out of those relationships and go back to growing food but they are stuck partially by debt and partially by terms of the contracts. So there are a lot of pressures particularly on smaller farmowners, once they get into the situation, to stay in. Unless there is some sort of, I would say, probably strong support from the Government to either buy out the contracts or to ease up on the credit restrictions that make it so difficult for them to get credit anywhere, but from the sugar buyers or the buyers of a particular crop, it is going to be tough.

Chairman GIBBONS. I don't want to debate this because I don't know enough about the subject, but looking over a lot of that land in the Dominican Republic, I don't think you could grow rice. Looks too dry to me. I don't know how they grow sugar on it.

Mr. OLINGER. There is dryland rice. Rice in this country essentially is patty rice, but there is dryland rice particularly in West Africa and there are strains that require much less irrigation.

Chairman GIBBONS. Is it competitive with the other rice as far as price?

Mr. OLINGER. Well——

Chairman GIBBONS. There was an interesting article I am beginning to read on the rice culture in Scientific American.

Mr. OLINGER. I am not sure in terms of being competitive because of the cost of bringing the land back, but that would have to be supported to be able to do that.

Chairman GIBBONS. Taking a rough look at the Dominican Republic, I see a lot of stones laying out in a lot of dry areas with a lot of cactus around. I know some places they have a lot of rain, but that is mainly in the mountains. I would have to assume the Dominicans have some idea what they are doing in their economy. They have been at it for 400 years.

Mr. Frenzel.

Mr. FRENZEL. Mr. Chairman, I am troubled, too.

I was nervous about your amendment to the CBI, and I am confused by your testimony today. That amendment seemed to dictate that one couldn't grow food for export. And today you are indicating that we ought to encourage it by removing processed agricultural commodities from the sensitive products list.

I guess my problem is, I think those countries ought to be able to make their own decisions about what is best for them. I am inclined to think that your suggestion is very good and that your other one may encourage them to do things that are not in their economic best interest.

Do you see any conflict there?

Mr. OLINGER. I don't, assuming that the two go forward together. In other words, if processed agricultural commodities were to be removed from import sensitivity restrictions, essentially it would allow those countries to develop more of their own capacity for processing and basically earn greater value from their initial investment in land and labor in terms of growing the export crops.

One of the problems for many of the countries is they grow their raw cocoa but the value they get from that is relatively low. They are not able because of various quotas or restrictions to do any of the processing. So if they do need to increase their ability to earn foreign exchange and they have one major commodity they can do it with, maybe the one way out will be to plant more cocoa or expand it. If their option were to continue to produce cocoa but to do more processing themselves and gain more of the value and create more jobs, then it seems to me that that would be a positive step in terms of their development.

One could argue that it might also encourage them to go ahead and plant more cocoa and process more cocoa. I feel that if you are also using GSP in a way that you are encouraging countries to deal with problems of food production as well, then there is some balance against that. But one could argue.

Mr. FRENZEL. I am concerned we are offering an incentive to improve the condition of the country and then restricting that incentive to ventures that may or may not improve the condition. I

think sometimes, despite our urges to presuppose that our wisdom exceeds theirs, that some of those decisions ought to be left to the local folks.

I have the same problem with human rights. If we made the GSP contingent on human rights, I don't guess there would be any. There certainly wouldn't be any to the LDC's.

Mr. OLINGER. I think if you——

Mr. FRENZEL. I am nervous about how you apply that.

What do we do; pick some friends or some rights?

Mr. OLINGER. I think what we would focus on essentially is labor rights, and I think you can look and determine——

Mr. FRENZEL. Are labor rights more precious than free speech, or free elections, or a full belly, or free press?

Mr. OLINGER. In terms of the relationship between what we are offering here, if we assume that countries that respond to GSP will develop economic activities particularly in the industrial sector, then it is something which is directly related because we are saying, in effect, that these particular set of rights, labor rights—are related to industrial growth and they will basically be a step to insure there is a greater participation in the benefits.

I think that when we are offering something which is an incentive, when we are offering something which is basically a free offering on our part, then I think we are able to say—and we do have a right to say—that in receiving this you ought to meet certain basic conditions. I think that one of them should be protecting the rights of workers, and also the rights of farmers, as well, and those small farmers who own land.

Mr. FRENZEL. I guess I am not tracking with you on that. I don't understand why the right to bargain should be the prime civil right or why that should do the people more good than the right to vote, for instance, which is one that I would think would be important.

Mr. OLINGER. Well, my argument would simply be in terms of what we are offering in terms of the relationship between an incentive to develop industry and putting some safeguard on that. I would agree; I would not be upset to see——

Mr. FRENZEL. You are looking at that from a negative standpoint; that the industry, given the incentive to go down there, is likely to abuse the local labor supply. Is that the problem? I don't understand.

Mr. OLINGER. I am looking more at the point of view of the situation in many of the developing countries which have developed exports and have responded very strongly to export industries, where labor rights have not been guaranteed and where there has been a very difficult situation for workers.

Mr. FRENZEL. I don't know a way out of our dilemma. I happen to be one of those that think GSP should be extended in some form, and I certainly hope you can find some friends in the Congress who will be willing to vote for its extension because, as the chairman indicates, we are a little short of those kinds of folks. I think we got probably a majority who will vote for any human rights restriction that you would suggest. We don't have a majority to pass it. I hope that you will be able to find some.

Thank you.

Chairman GIBBONS. Mr. Russo.

Mr. RUSSO. No questions.

Chairman GIBBONS. Sir, you know, as interested as we all are in human rights, I want to tell you it is a very difficult thing for us to tell people what human rights are. I will give you an illustration.

I was talking to a head of a country a couple months ago and we pushed him on the human rights issue, talking about freedom of religion, and he said, "Well, you know, Mr. Gibbons, before I took over and started running this country, we only had one religion here, and that was the state-sponsored religion. The church and the state were united." He said, "I have 13 now. How many more do I have to have before you stop preaching to me about religion? Most of the people would like to go back to just one."

"I am trying to follow a middle course," he said. "I have 13 now. Do I have to have 26, 50, or where do I stop?" In other words, they had a different attitude towards religion than we have in this country where religion has never been a state-sponsored institution; there has been a differentiation between church and state.

I find as I talk to people about human rights, I get the same response. You know, "We think guaranteed employment is a greater human right than freedom to bargain," one will tell you. Shouldn't we just try to lead by example rather than to lead by coercion?

Mr. OLINGER. If it would work that way, I think that would be a good way. But I think that a number of countries that have responded positively to GSP have responded to the incentives offered, but I don't know that they have responded to the example we have offered. I would certainly hope that the example we have would provide countries with enough opportunity. I am just not sure that is the case.

Chairman GIBBONS. Our desire to lead by coercion, legislatively, has pushed us out of many markets in which we could have otherwise had some influence, as well as some market. As committed as I am individually to lifting up mankind and having them enjoy the same rights that we enjoy in this country, I must say there is a far different perception of some of these rights when you get across the sea and look back. They just don't see them the same way we do. And because of their history and their tradition, what we suggest to them sounds like we are trying to tell them how they should make their own decisions.

That is what worries me about coercing things in legislation that are very much subject to broad interpretations, almost any interpretation that would come up. I want to see it done, but I have about come to the conclusion that America must lead by example rather than by the stick.

Mr. FRENZEL. Would the gentleman yield?

Chairman GIBBONS. Sure.

Mr. FRENZEL. I want to go back to the labor rights thing. I think it is fair to say that the principal opposition to GSP is organized labor in the United States, and if we attach a labor organization condition, does that mean that we will breed organizations which will later oppose giving the same kind of preferences to other even more undeveloped countries?

Mr. OLINGER. I am sorry. I missed part of that.

Mr. FRENZEL. Perhaps I wasn't very clear.

I am saying that the principal opponent to the extension or enhancement of GSP is organized labor in the United States. By making the right to organize the prime condition of GSP, will we not be creating in these countries the organizations which, if we are successful in enhancing the human condition in those countries, organizations which will deny GSP in their own lands then to other less favored countries or more undeveloped countries?

Mr. OLINGER. Well, Mr.——

Mr. FRENZEL. I am not sure we are going the right direction, is all. I guess I am not phrasing it very well.

Mr. OLINGER. It seems to me that that could happen; it is possible. But additionally, the impulses now for closing off access to markets come not so much from workers in these countries who, in many cases, are not organized, but basically from the manufacturers and their Government. We are facing that problem. I would say that is a risk that we probably should take.

Chairman GIBBONS. Well, sir, I have no further questions. And, Mr. Frenzel, I guess you have no further questions.

This concludes our hearing for today. We will resume at 9:30 tomorrow morning in this room on the same question.

I want to thank the last witness. You certainly had some very interesting testimony to present here this morning. Thank you.

[Whereupon, at 12 noon, the subcommittee adjourned, to reconvene at 9:30 a.m., Thursday, February 9, 1984.]

POSSIBLE RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES—PART 2

THURSDAY, FEBRUARY 9, 1984

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The subcommittee met at 9:52 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman GIBBONS. This is a continuation of a hearing that we began yesterday on the generalized system of preferences.

The witnesses, I hope, will summarize their testimony on the understanding that their statements will be printed in full in the hearing record.

Our first witness this morning is Mr. Stephen Koplan, the legislative director of the AFL-CIO.

Come up, Mr. Koplan, and you may proceed as you wish.

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY MARK ANDERSON, TRADE ECONOMIST, DEPARTMENT OF ECONOMIC RESEARCH, AFL-CIO

Mr. KOPLAN. I have with me Mark Anderson, trade economist in our department of economic research.

Chairman GIBBONS. Yes. Good to see you.

Mr. KOPLAN. I will not read my full statement but will summarize it.

The AFL-CIO believes that the President's authority to eliminate duties on certain articles from developing countries under the generalized system of preferences, GSP, which is due to expire on January 3, 1985, should not be renewed.

GSP imports are heavily concentrated in industrial sectors such as minerals and metal products, machinery and equipment, and miscellaneous manufactures. These industries are among America's most endangered, already suffering high levels of unemployment due to imports and worldwide recession. The existing procedures for the graduation of import-sensitive products has been woefully inadequate.

Since its inception, the program has provided the greatest amount of assistance to those countries that need it the least. By 1982, the top 15 GSP countries accounted for an astonishing 88 per-

cent of GSP imports. It is obvious that for the remaining 125 countries, the benefits of GSP are marginal at best.

If the Congress finds it necessary to renew GSP, at the very least the AFL-CIO believes that Taiwan, South Korea and Hong Kong, the top three recipients of GSP benefits, should be graduated immediately from GSP beneficiary status. In 1982, those three countries alone accounted for almost 50 percent of all GSP imports. These three countries are already major trading nations, exporting together in 1982 more than $21 billion worth of goods to the United States alone. Our trade deficit with these three countries exceeded $10 billion in that year. These three countries crowd out less developed countries from GSP eligible product sales while contributing at the same time to the decline of U.S. industry.

There needs to be simpler and better criteria for graduating products from GSP eligibility. For product graduation, we would propose a $200 million ceiling for all products in a two-digit standard industrial classification, SIC, category imported from one country. When such a limit is reached in a calendar year, the appropriate duty would immediately be assessed.

Further, an overall level of $1 billion in products in a two-digit category imported duty-free from all GSP countries should be established as a criteria to remove such products from GSP eligibility. Such graduation mechanisms would help assure that GSP went to countries that needed help in developing a trade capability and be limited to quantities of products that will not harm U.S. producers. I might add that in the text of my full statement there is more detail on that suggestion.

The administration's proposal does not address any of our concerns. We believe that proposal provides the President with a 10-year blank check to fashion a program in any way he wishes by vastly increasing his discretionary authority, further diluting the minimal protections provided by current law, and virtually eliminating the ability of Congress to monitor and review the operation of GSP.

In addition, the AFL-CIO believes that if Congress renews GSP, strong provisions concerning human and trade union rights should be made an integral part of the program. A country should not be designated as a beneficiary developing country where these basic rights are restricted or denied.

That concludes my summary, Mr. Chairman.

[The statement of Mr. Koplan follows:]

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

SUMMARY

1. The AFL-CIO believes that the President's authority to eliminate duties on certain articles from developing countries under the Generalized System of Preferences (GSP) which is due to expire on January 3, 1985, should not be renewed.

2. GSP imports are heavily concentrated in industrial sectors such as minerals and metal products, machinery and equipment, and miscellaneous manufactures. These industries are among America's most endangered, already suffering high levels of unemployment due to imports, and worldwide recession. The existing procedures for the graduation of import-sensitive products has been woefully inadequate.

3. Since its inception, the program has provided the greatest amount of assistance to those countries that need it the least. By 1982, the top 15 GSP countries accounted for an astonishing 88 percent of GSP imports. It is obvious, that for the remaining 125 countries, the benefits of GSP are marginal at best.

4. If the Congress finds it necessary to renew GSP, at the very least, the AFL–CIO believes that Taiwan, South Korea, and Hong Kong, the top three recipients of GSP benefits should be graduated immediately from GSP beneficiary status. In 1982, those three countries alone accounted for almost 50 percent of all GSP imports. These three countries are already major trading nations, exporting together in 1982 more than $21 billion worth of goods to the United States alone. Our trade deficit with these three countries exceeded $10 billion in that year. These three countries crowd out less developed countries from GSP eligible product sales while contributing at the same time to the decline of U.S. industry.

5. There needs to be simpler and better criteria for graduating products from GSP eligibility. For product graduation, we would propose a $200 million ceiling for all products in a two-digit Standard Industrial Classification (SIC) category imported from one country. When such a limit is reached in a calendar year, the appropriate duty would immediately be assessed. Further an overall level of $1 billion in products in a two-digit category imported duty-free from all GSP countries should be established as a criteria to remove such products from GSP eligibility. Such graduation mechanisms would help assure that GSP went to countries that needed help in developing a trade capability and be limited to quantities of products that will not harm U.S. producers.

6. The Administration's proposal does not address any of our concerns. We believe that proposal provides the President with a 10-year blank check to fashion a program in any way he wishes by vastly increasing his discretionary authority, further diluting the minimal protections provided by current law, and virtually eliminating the ability of Congress to monitor and review the operation of GSP.

7. In addition, the AFL–CIO believes that if Congress renews GSP, strong provisions concerning human and trade union rights should be made an integral part of the program. A country should not be designated as a beneficiary developing country where these basic rights are restricted or denied.

STATEMENT

The AFL–CIO welcomes this opportunity to present our views on whether to review the President's authority to eliminate duties on certain articles from developing countries under the Generalized System of Preferences (GSP). This authority, granted by Congress, under Title V of the Trade Act of 1974, is due to expire on January 3, 1985.

We believe the GSP program has not fulfilled its goals, is contrary to the interest of U.S. workers, and represents a prime example of misguided government policies and practices in the area of international trade and investment.

We believe the system should not be reviewed. In the more than 9 years of its existence, GSP has provided pitifully little benefit to the majority of the less developed countries, and has contributed to the deterioration of U.S. industries and unemployment.

The GSP was enacted for a period of 10 years in 1975, in response to a U.S. supported recommendation of the United Nations Conference on Trade and Development. It was constructed as a program of unilateral, and temporary tariff preferences granted by the United States. Its purpose was to assist developing countries diversify their exports and increase their rate of economic growth.

It was hoped that the program would enable poorer countries to acquire foreign exchange, and participate more actively in the world trading system, thereby contributing to these nation's social and economic development. It is clear, however, that the emphasis on export led development, as promoted by GSP, has not created the benefits originally envisaged and has served to some degree to further aggravate the gaps between the haves and have-nots in the developing world.

At present, the GSP grants special zero tariffs to approximately 3,000 categories of products imported from 140 countries and territories. From 1976 to 1982, the value of imports receiving GSP treatment has risen from $3 billion to $8.5 billion and accounts for 4.9 percent of our total non-petroleum imports. GSP imports are heavily concentrated in industrial sectors such as minerals and metal products, machinery and equipment, and miscellaneous manufactures. These industries are among America's most endangered, already suffering high levels of unemployment due to imports, and worldwide recession.

Import-sensitive products are flooding the country from every part of the world. The Trade Act of 1974 states that "import-sensitive articles," such as textile and apparel, electronic articles, steel articles, footwear, glass, and "any other articles the President determines to be import sensitive in the context of GSP" should not be granted duty-free status.

Despite these restrictions, the GSP eligible list continues to contain a wide array of products that are clearly import sensitive. Examples of such items include: Hangars and other buildings, bridges, etc. of iron or steel; Telephone apparatus and parts; Electronic equipment of various kinds; Photographic equipment of various kinds; Motor vehicle, designed for special services of functions; Motor vehicle parts; Aircraft parts; and Machinery of a wide variety of kinds, including some machine tools, metalworking machinery, handtools, accounting, computing and other data processing machines, etc.

We see no justification at a time when America is experiencing high levels of unemployment to allow GSP duty-free treatment for this kind of overseas production.

The AFL-CIO has had experience with many other import-sensitive products receiving GSP treatment—glass articles, leather wearing apparel, oil drilling rigs, drydocks, etc., where the Executive Branch has failed to comply with what we believe was Congressional intent in exempting import-sensitive items.

Most of these items, we believe, should not have been placed on the list in the first place. Nevertheless, producers and workers in the United States must bear the burden of proof and protest with facts, figures, hearings and delays before the Administration decides whether or not the item should be removed from the list because of import sensitivity.

It makes no sense for this burden to be entirely on the public. The government of the United States has a responsibility to assure the citizens of this country that their jobs and production will not be sacrificed through special arrangements that supposedly would help the poor countries of the world. The existing procedures for the graduation of import-sensitive products have been woefully inadequate.

To make matters worse, the intended beneficiaries of GSP have not, in any real way, been helped. Since its inception, the program has provided the greatest amount of assistance to those countries that need it the least. In 1976, the top 15 beneficiary developing countries accounted for 79 percent of all GSP duty-free imports. By 1982, the top 15 countries accounted for an astonishing 88 percent of GSP imports. It is obvious, that for the remaining 125 countries, the benefits of GSP are marginal at best.

In 1982, the top three beneficiary developing countries alone accounted for almost 50 percent of all GSP imports.

Taiwan enjoyed $2.3 billion in duty-free GSP exports out of a total of $9.6 billion in total exports to the U.S.

South Korea enjoyed $1.1 billion in duty-free GSP exports out of $6 billion in total exports to the U.S.

Hong Kong enjoyed $794 million in duty-free GSP exports out of $5.9 billion in total exports to the U.S.

It should be emphasized, that in addition to the obvious inequity in benefits vis-a-vis other developing countries demonstrated by these figures, the volume of their imports to the U.S. not covered by GSP indicates that they do and can compete in world trade, are highly industrialized, and do not require special treatment.

In 1982, Taiwan enjoyed a trade surplus with the U.S. of more than $5 billion; Hong Kong, almost $3.5 billion; and South Korea, almost one-half billion. These surpluses have increased dramatically in 1983. For the first three quarters of last year, the U.S. deficit is running 32 percent higher with Taiwan, 18 percent higher with Hong Kong, and 52 percent higher with South Korea when compared to the corresponding period in 1982.

At a time when the U.S. merchandise trade deficit reached $69.4 billion in 1983, almost 63 percent greater than the deficit experienced in 1982, the continuation of special privileges for countries like these, is the height of folly.

Because the GSP system has not fulfilled the goals of development and has hurt U.S. production and jobs, the AFL-CIO urges that the program be ended. At the very least, countries which have become competent in world trade should not, in our view, continue to receive these benefits. Products which are undermining the U.S. economic base and adding to the already serious levels of U.S. unemployment should not remain eligible for duty-free treatment. This policy was expressed at the AFL-CIO Convention in October 1983, as follows: "The Generalized System of Preferences should be repealed. At minimum, Congress must make import-sensitive items ineligible for GSP, limit its access to those countries that can realistically be considered developing nations. and exclude communist nations from the program."

If the Congress finds it necessary to renew GSP, greater attention should be paid to both its impact on the domestic economy, and the level of development of those countries receiving benefits under the program. In order for Congress to properly assess these factors, and extension of GSP should be no more than 3 years. Communist countries such as Romania have no place in a program that grants preferential treatment and should be declared ineligible. Provisions for the meaningful graduation of both countries and products from GSP should be enacted.

At the very least, the AFL-CIO believes that Congress should provide for the immediate graduation of Taiwan, South Korea, and Hong Kong, the top three recipients of GSP benefits.

These countries are already major trading nations, exporting together in 1982 more than $21 billion worth of goods to the United States alone. Of that total, more than $4 billion received GSP duty-free treatment. Our trade deficit with these three countries exceeded $10 billion in that year and will be considerably higher in 1983. In addition each of these countries is clearly not in the category of the least developed nations. The 1982 per capita Gross Domestic Product in Hong Kong was $4,952; in Taiwan, the 1982 per capita Gross National Product was $2,543 and in South Korea, $1,678. This level of development is a far cry from the many nations with per capita income of less than $1,000. Under such circumstances, it is hard to justify that these three countries need GSP to become competent in world trade or to promote development. Rather, it seems that these three countries crowd out less developed countries from GSP eligible product sales while contributing at the same time to the decline of U.S. industry.

Criteria, such as total volume of exports, amount of exports not subject to GSP, and amount of GSP exports are suitable criteria to be written into the law to apply generally to the graduation of countries.

Similarly, there needs to be simpler and better criteria for graduating products from GSP eligibility. We would propose that a product in any country be removed from GSP eligibility in that country if $200 million in a two-digit Standard Industrial Classification (SIC) category is imported from that country. When such a limit is reached in a calendar year, the appropriate duty would immediately by assessed and would continue for the following calendar year as well. GSP eligibility in that product category for that country could only be restored if imports for that full calendar year period remained under $150 million. Further, an overall level of $1 billion in products in a two-digit category imported duty-free from all GSP countries should be established as a criteria to remove such products from GSP eligibility.

Such graduation mechanisms would help assure that GSP went to countries that needed help in developing a trade capability and be limited to quantities of products that will not harm U.S. producers.

In addition, the AFL-CIO believes that if Congress renews GSP, strong provisions concerning human and trade union rights should be made an integral part of any legislation. A country should not be designated as a beneficiary developing country where these basic rights are restricted or denied. Regular Congressional oversight would be necessary to ensure the proper application of such provisions.

Unfortunately, the Administration, in its proposal to renew Presidential authority for the operation of the Generalized System of Preferences, does not address any of these concerns. We believe the amendments to Title V of the Trade Act of 1974 proposed by the Administration provide the President with a 10-year blank check to fashion a program in any way he wishes by vastly increasing his discretionary authority, further diluting the minimal protections provided by current law, and virtually eliminating the ability of Congress to monitor and review the operation of this system.

The centerpiece of the Administration's proposal would amend Section 504(c) of the Act, to provide Presidential authority to waive the existing competitive need limit indefinitely when deemed in the national interest. While basing such a decision on factors listed in current law, the Administration's proposal states: "In making this determination, the President will give great weight to the extent to which the country has assured the U.S. that it will provide equitable and reasonable access to the markets of such country."

Under competitive need limitations in current law, a country loses GSP treatment for a particular product if its shipments of that product in the preceding calendar year exceeded 50 percent of the value of total U.S. imports of the product or a specific value limit that is adjusted annually. The limit for 1982 was $53.3 million. These limitations were established by Congress to provide some measure of protection of American producers and workers, and to establish criteria by which a country's need for this special privilege could be judged. As indicated earlier, these

guidelines need to be strengthened and simplified, not eliminated through Administration decision.

In addition, by suggesting the further liberalization of GSP benefits to countries who reduce barriers to American goods and investment, the Administration appears to be ignoring guidelines in the current law which direct the President in determining whether to designate a country eligible for GSP to take into account "the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country" (Sec. 502(c)(4)). It would seem that GSP eligibility for countries that restrict market access should simply be revoked, not further extended.

The Administration has proposed additional amendments to Section 504 in an attempt to address the problem of the high level of concentration of GSP benefits in just a few countries. Here, the proposal would direct the President to determine whether a country has demonstrated a sufficient level of competitiveness in a particular product, relative to other beneficiary countries which produce the same product. If such a finding were made, the President could reduce the competitive need limit by half, theoretically opening our market to other GSP country producers. It is unclear how this amendment would fit with the one previously noted that grants the President authority to move in the opposite direction and waive the competitive need limit entirely. It appears that these amendments permit the President to take any action he sees fit.

Other provisions of the Administration's proposal undermine Congressional oversight authority. They include the Presidential authority to establish a separate group of countries not subject to any competitive need limits and the elimination of a Presidential report to Congress on the operation of this program. If Congress determines that the renewal of GSP in some form is necessary, it should strengthen, not weaken its supervisory role.

The AFL-CIO has consistently supported programs that provide a genuine development potential for the poorer nations of the world. We have maintained ties with labor groups in other countries and supported efforts for healthy development and a more effective world trading system. GSP has not helped to achieve those goals and it should not be renewed.

[Millions of dollars]

	U.S. imports	U.S. exports	Deficit
Taiwan:			
1982	9,586.9	3,280.7	6,306.2
January to September 1983	8,626.4	3,356.1	5,270.3
Hong Kong:			
1982	5,895.1	2,452.7	3,442.4
January to September 1983	4,899.5	1,876.5	3,023.0
South Korea:			
1982	6,011.5	5,528.8	482.7
January to September 1983	5,598.1	4,399.9	1,198.2

Source: U.S. Department of Commerce, Highlights of U.S. Export and Import Trade, December 1982, and September 1983.

TWO-DIGIT IMPORT-BASED SIC TITLES

01.—Agricultural Products;
02.—Livestock and Products;
08.—Forestry Products;
09.—Fish;
10.—Metallic Ores;
12.—Coal and Lignite;
13.—Crude Petroleum and Natural Gas;
14.—Nonmetallic Minerals, except Fuels;
20.—Food and Kindred Products;
21.—Tobacco Manufacturing;
22.—Textile Mill Products;
23.—Apparel and Related Products;
24.—Lumber and Wood Products, except Furniture;
25.—Furniture and Fixtures;
26.—Paper and Products;

27.—Printing, Publishing;
28.—Chemicals and Products;
29.—Petroleum Refining and Products;
30.—Rubber and Miscellaneous Plastics;
31.—Leather and Products;
32.—Stone, Clay, Glass and Concrete Products;
33.—Primary Metal Products;
34.—Fabricated Metal Products;
35.—Machinery, except Electrical;
36.—Electrical Machinery, Equipment, Supplies;
37.—Transportation Equipment;
38.—Measuring, Analyzing and Controlling Instruments; Photographic and Optical Goods; Watches and Clocks;
39.—Miscellaneous Manufactures;
91.—Scrap and Waste;
92.—Used or Second-hand Merchandise;
98.—U.S. Goods Returned; and
99.—Miscellaneous Commodities.

Chairman GIBBONS. Well, Mr. Koplan, I want to thank you for making a constructive statement. I will read your entire statement, and if I have questions, I will communicate with you about them.

Mr. KOPLAN. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, sir.

Mr. Jenkins?

Mr. JENKINS. No, thank you, Mr. Chairman.

Chairman GIBBONS. Our next witness is from the Association of American Chambers of Commerce in Latin America, Mr. John T. Plunket, president.

STATEMENT OF JOHN T. PLUNKET, PRESIDENT, ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA

Mr. PLUNKET. Thank you, Mr. Chairman, and members of the committee.

As you have noted, I am here as president of the Association of American Chambers of Commerce in Latin America, unusually known by the acronym AACCLA. Our association is comprised of 21 American Chambers of Commerce which represent about 18,000 U.S. and local firms and businessmen throughout Latin America. We appreciate the opportunity to share our views with you on the important subject of the renewal of the GSP. I will limit my remarks, but we would appreciate the entire statement being included in the record.

Chairman GIBBONS. Yes, it will be. You just go right ahead.

Mr. PLUNKET. Thank you.

I just returned from a trip to six South American countries where I had the opportunity to talk with members of the local American Chambers of Commerce, and with prominent private-sector businessmen and government officials. In all those countries, as well as in Mexico, where I have lived for the past 22 years, I have found great concern that the U.S. Congress may not renew the Generalized System of Preferences or that the benefits which that legislation has granted the developing countries will be limited.

Businessmen and government officials in Latin America are aware of the benefits which the United States and other industrialized nations have granted them under this or similar preference legislation, and they are aware that other nations which adopted

legislation similar to the U.S. GSP at the same time that our law was adopted have already extended the life of their programs.

AACCLA submits to you that the renewal of GSP, without restricting existing benefits, is in the self-interest of the United States. During the past 2 years, U.S. exports to Latin America have declined by about 40 percent. Based on a recent study by the Federal Reserve Bank of New York, it is estimated that the reduction in those exports between 1981 and 1983 has caused the loss of over 400,000 jobs in the United States.

The Latin Americans have not stopped buying U.S. goods because they are buying them from other industrialized nations. They have stopped buying them because they do not have money or credit to pay for them. Nor do most of the Latin American countries have money to pay interest on the debts they owe to U.S. and other international banks. Further limiting those markets which are available to those countries will further limit their ability to buy and pay for goods which they desperately need and which are made by U.S. workers in U.S. factories.

There is little, if any, evidence that GSP has been a major cause of injury to industrial or agricultural producers. Duty-free GSP imports from Latin America account for only about 1 percent of total U.S. imports.

The budgetary consequences are insignificant from exempting Latin GSP imports from duties. Nevertheless, it is an effective form of development assistance. By relying upon the normal incentives of the market, it stimulates business activity through trade opportunities.

Our direct bilateral assistance programs have been cut back, and in some cases terminated in recent years in almost all countries outside the Caribbean Basin. GSP has become a substitute for direct aid, as a result. In some ways, it is an inadequate substitute since it does not directly promote such essential activities as infrastructure development and education, for example. Over the long run, however, if the program is extended and allowed to work, it will contribute more to putting beneficiary countries on the path to self-sustained growth than anything else we can do.

The Congress has recognized the special importance of Latin America to the United States and the desirability of providing assistance to the Latin American nations by the passage of the Caribbean Basin Initiative. We suggest that a decision not to extend GSP or to limit it in some way would be a step backward from that enlightened policy.

We suggest further that it is inappropriate for the United States to insist on reciprocity as a condition for granting GSP benefits to Latin America. Other industrialized countries have renewed their GSP programs without seeking reciprocal concessions.

The United States obviously has a greater self-interest in the economic health of Latin America than any other industrialized nation. GSP contributes to achieving U.S. political objectives by strengthening the inter-American system. The economic growth which it stimulates will, in the long run, be the most effective antidote to extremist political regimes likely to be hostile to U.S. interests. In the short run, it helps build goodwill in the hemisphere.

The benefits to Latin America from GSP are clear. Other factors being equal, GSP gives imports from beneficiary countries a competitive edge over imports from other non-GSP competitors. While the margin GSP provides may be small, it has been important in enabling nascent industrial sectors of Latin America compete in the U.S. market. We believe many Latin American exports of manufacturers have benefitted from such a GSP "boost." By encouraging industrialization, GSP contributes to economic growth and political stability.

At this critical time, we should expand, not cut back, the benefits of the system. We hope that the administration proposal and our suggestions will help accomplish this objective.

Thank you.

Chairman GIBBONS. Thank you, sir.

I notice that U.S. exports to this part of the world have nosedived. They have gone down like the *Titanic*, almost. I realize these people cannot buy from us unless they have some way to gain dollars or gain some form of credit.

It seems to me that the policy of the International Monetary Fund has amply looked out for the bankers but has slaughtered the stockholders, the producers, laborers in this country, and to some extent in other countries. I think that the loans of the bankers have been protected 100 percent, but they have been protected 100 percent to the expense of everyone else in the whole society.

I wonder if you have any views on that subject?

Mr. PLUNKET. Well, I think it is clear, Mr. Chairman, that the dollar earnings of the Latin American countries are to a large extent absorbed by their debt service obligations to the banks.

Chairman GIBBONS. They can't even pay their interest payments.

Mr. PLUNKET. That is correct.

I have no particular views on their paying those debts. But their only source of dollars, as you have pointed out, is what they can export, and traditionally the United States has always been their biggest market.

Now, the necessity for covering their debt service obligations has resulted in such a diminution of U.S. exports to Latin America. Many Latin American nations have for the first time in their trade relations with the United States a favorable balance of trade. That doesn't mean that they are doing well. They are doing very badly. But, unquestionably, there is a desperate need for their need to develop more export capacity.

We see GSP as one step—certainly not a solution—but the sort of policy which will help them to accomplish that.

Chairman GIBBONS. Well, Mr. Plunket, I frankly must admit I don't know the answer to all of this problem that we are involved in, and I am going to try to find out the answer before this year is over. But I don't know it now. And I am kind of bouncing some ideas off of you.

I notice that American exports on an annual basis have dropped recently at the rate of $37 billion per year, which causes substantial impact to our agricultural sector, to our industrial sector, to our labor sector, to our service sector, to all sectors of the U.S. economy. That is a phenomenal drop in exports. I don't think any country ever had that kind of drop.

It is really amazing to me that we have not had more dislocation from that than we have had. I just don't know how much longer our farmers, our stockholders, our industrialists, our laborers can be expected to take the whole gaffe in this problem while the bankers sit by and collect their interest, 100 cents on the dollar, because the IMF is commanding that that is the way it happens.

It seems to me there has been unequal distribution of the burden sharing in a time of crisis. And I realize that we can't collapse our banking systems. But I think there has to be a more equitable way of burden sharing. We are going to have ample use of the bankruptcy courts for our farmers and industrialists and the people that they employ by the policy that is now being carried out.

I realize it is much more complex than what I have said here, but would you like to observe on any of the comments I have made?

Mr. PLUNKET. I fully understand your reasoning, Mr. Chairman, and I can't disagree with any of it. I can only really repeat, I guess, what I have said; that until such time as the ability to export for these nations is restored and hopefully amplified, the United States has lost a major market, and it is a market that is going to be very difficult to restore.

I would hope that the Congress and the U.S. Government would look with sympathy on any method of helping these countries restore and develop additional ability to export, because that is the only way that that market—which, as you have pointed out, is so important—can be restored for U.S. exports.

Chairman GIBBONS. Well, I appreciate your observations.

Mr. Jenkins, would you like to inquire?

Mr. JENKINS. Thank you, Mr. Chairman.

From a previous witness, it appears that some 80 percent of the total GSP imports to this country came from about 15 or 20 countries.

Are there any major Latin American countries in the top 10?

Mr. PLUNKET. I believe, Congressman Jenkins, that Brazil and Mexico are included in that group. I do not believe—I am not certain of this—but I don't believe any of the other Latin American countries are included. I could be wrong, but I believe that is correct.

Mr. JENKINS. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, sir. We appreciate your coming today.

Mr. PLUNKET. Thank you.

Chairman GIBBONS. We next have a panel of witnesses: Valley Builders Supply Co., Mr. Jon McCoy, President; and the National Concrete Masonry Association, Mr. Arnold Caputo, Consultant.

Mr. McCoy, you may proceed.

STATEMENT OF JON P. McCOY, PRESIDENT, VALLEY BUILDERS SUPPLY, INC., PHARR AND SAN BENITO, TEX., ACCOMPANIED BY JOHN HESLIP, EXECUTIVE VICE PRESIDENT, NATIONAL CONCRETE MASONRY ASSOCIATION

Mr. McCOY. Good morning, Mr. Chairman.

Arnold Caputo was unable to attend with me this morning, so John Heslip, Executive Vice President of the National Concrete Masonry Association, has joined me.

Mr. Chairman, I am going to take the liberty to just generalize on my written statement.

Chairman GIBBONS. All right. You go ahead. We will put the entire statement in the record, of course, and you may proceed as you wish.

Mr. MCCOY. Thank you.

As you stated, I am Jon McCoy, and I am president of the Valley Builders Supply, Inc., of Pharr and San Benito, Tex. In our business, we manufacture and sell concrete block, cement brick and related masonry products. We have been in the business of manufacturing block for 44 years. We are presently operating three manufacturing plants that employ 60 people and a total dependency of 288. Our plants are very modern, efficient facilities that utilize the latest manufacturing technologies.

I speak to you today, not only for myself, but also for the 20 block companies in border regions of California, New Mexico, Arizona, and Texas that are presently being affected by Mexican imports as well as for the National Concrete Masonry Association, made up of 400 block producers nationwide.

At your subcommittee hearings of October 20, 1983, I appeared and described how the Mexican Government's pricing of energy products has given Mexican block producers a major economic advantage over U.S. producers. With Mexican oil prices at less than $4 a barrel versus $27 a barrel in the USA, the Mexicans enjoy a major benefit in the manufacturing process where fuel is 33 percent of my cost. They enjoy a major advantage in transportation costs, as well.

Additionally, I pointed out how fuel advantages have a secondary impact on the basic materials used to make block. The Portland cement and the aggregates like expanded clay or shale are very energy consumptive. My cement costs are $77.60 per ton versus $39 per ton for my Mexican competitors.

Since the October 20, 1983 hearing, the block producers of Southwestern United States, through the National Concrete Masonry Association, have worked with legal counsel and a research firm to investigate the Mexican export activities further.

We have found a number of Mexican Government programs that are providing additional advantage to Mexican block producers: One, Mexican block producers exporting to the United States receive tax credits; two, Mexican block producers are receiving export incentives; three, Mexican block producers along the Mexican-U.S. border are receiving preferential financing for new plant and equipment investments; four, Mexican block producers are receiving preferential treatment for preinvestment market studies; five, Mexican block producers are receiving border zone incentives when located in strategic geographic areas adjacent to the United States.

My competition from Mexico is able to sell and deliver block in my marketplace from 28 to 65 cents per 8-inch equivalent, depending on what the market will bear. This condition could only be tied

back directly to the Mexican Government program providing the block and cement industry with subsidized programs.

In addition to my direct costs, I am also burdened with the indirect costs that my Mexican counterparts are not faced with. They are: One, our manufacturing facilities must meet OSHA standards and clean air regulations; two, I must pay highway use tax on my delivery vehicles, and meet U.S. highway safety standards; three, I must pay State and Federal diesel fuel tax; four, I must carry product liability insurance and vehicle liability insurance; five, I must pay monthly testing costs to insure our products meet ASTM specifications.

As an entrepreneur competing against Mexican entrepreneurs, the frustrations of coping with this situation are monumental. Recently, I invited Congressman Kent Hance to tour our marketplace. Congressman Hance was astounded at the overloaded Mexican block trucks traveling Texas highways that were unsafe because they had no lights working and dangling electric wires. These trucks also lacked truck and trailer license plates.

Congressman Hance was amazed at the total number of Mexican block that were either stockpiled in sales yards or on jobsites. These observations are consistent with information from our legal counsel that indicate Mexican block sales for 11 months, 1983, to be 2½ times that of block sales for 12 months in 1982. Mr. Chairman, this trend continues to grow.

The Mexican block import problem is not a simple case of free enterprise at work. It is a deliberate attempt by the Mexican Government to penetrate U.S. markets by targeting opportunities and then providing a large variety of financial incentives to Mexican nationals so they can undercut American competition. The Mexican construction industry cannot and will not in the foreseeable future absorb the amount of block production that has developed along the border of the United States. And the problem is growing increasingly worse.

Mexico is deliberately destroying American jobs and American free enterprise. It is aiding and abetting Mexican investors. There is no way open to U.S. block producers to ship to Mexico competitively since no one is helping us.

Since a principal purpose of these hearings is to establish the desirability of extending the present duty-free list of generalized system of preferences that expire in January 1985, and since concrete block and brick are presently included on this list, we must strongly appeal to the committee to consider granting relief by allowing this program to expire.

Mr. Chairman, I thank you for your time and your attention.

[The statement of Mr. McCoy follows.]

STATEMENT OF JON MCCOY, PRESIDENT OF VALLEY BUILDERS SUPPLY CO.

My name is Jon McCoy. I'm President of Valley Builders Supply, Inc. of Pharr and San Benito, Texas. In our business, we manufacture and sell concrete block, cement brick and related masonry products. We have been in business of manufacturing block for 44 years. We are presently operating three manufacturing plants that employ 60 people and a total dependency of 288. Our plants are very modern, efficient facilities that utilize the latest manufacturing technologies.

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being affected by Mexican imports as well as for the National Concrete Masonry Association, made up of 400 block producers nationwide.

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Additionally, I pointed out how fuel advantages have a secondary impact on the basic materials used to make block. The Portland cement and the aggregates like expanded clay or shale are very energy consumptive. My cement costs are $77.60 per ton versus $39 per ton for my Mexican competitors.

Since the October 20, 1983 hearing, the block producers of Southwestern United States, through the National Concrete Masonry Assocation, have worked with legal counsel and a research firm to investigate the Mexican export activities further.

We have found a number of Mexican Government programs that are providing additional advantage of Mexican block producers. (1) Mexican block producers exporting to the United States receive tax credits. (2) Mexican block producers are receiving export incentives. (3) Mexican block producers along the Mexican-U.S. border are receiving preferential financing for new plant and equipment investments. (4) Mexican block producers are receiving preferential treatment for pre-investment market studies. (5) Mexican block prodicers are receiving "border zone" incentives when located in strategic geographic areas adjacent to the United States.

Our industry is unique in that we break our costs into 8" equivalents. In the industry, an 8" equivalent is an 8"x8"x16" block and therefore, on the costs that you are about to review, they are quoted in terms of block. I have a total manufacturing cost of 74.8 cents per 8" equivalent. In addition to the manufacturing costs, there are operating expenses of 11.1 cents per unit resulting in a total of 85.9 cents per 8" equivalent. In speaking with the NCMA and reviewing their "Annual Cost of Doing Business Survey", I have been informed that my costs are typical to those of other U.S. block producers along the Mexican border.

Based on some conservative figures and knowledge of the industry, I have estimated our Mexican competitors manufacturing costs at 25.14 cents per 8" equivalents. In addition, their operating expenses were estimated to be 06.3 cents, giving them a total estimated cost of 31.44 cents per 8" equivalent.

My competition from Mexico is able to sell and deliver block in my marketplace from 28 cents to 65 cents per 8" equivalent, depending on what the market will bear. This condition could only be tied back directly to the Mexican Government program providing the block and cement industry with subsidized programs.

In addition to my direct costs, I am also burdened with the indirect costs that my Mexican counterparts are not faced with. They are: (1) Our manufacturing facilities must meet OSHA standards and clean air regulations. (2) I must pay highway use tax on my delivery vehicles, and meet U.S. highway safety standards. (3) I must pay State and Federal diesel fuel tax. (4) I must carry product liability insurance and vehicle liability insurance. (5) I must pay monthly testing costs to insure our products meet ASTM specifications.

As an entrepreneur competing against Mexican entrepreneurs, the frustrations of coping with this situation are monumental. Recently, I invited Congressman Kent Hance to tour our marketplace. Congressman Hance was astounded at the overloaded Mexican block trucks traveling Texas highways that were unsafe because they had not lights working and dangling electric wires. These trucks also lacked truck and trailer license plates. Congressman Hance was amazed at the total number of Mexican block that were either stockpiled in sales yards or on job sites. These observations are consistent with information from our legal counsel that indicate Mexican block sales for 11 months, 1983 to be 2½ times that of block sales for 12 months, 1982. This trend continues to grow.

The Mexican block import problem is not a simple case of free enterprise at work. It is a deliberate attempt by the Mexican Government to penetrate U.S. markets by targeting opportunities and then providing a large variety of financial incentives to Mexican nationals so they can undercut American competition. The Mexican construction industry cannot and will not in the foreseeable future, absorb the amount of block production that has developed along the border of the United States. And the problem is growing increasinlgy worse.

Mexico is deliberately destroying American jobs and American free enterprise. It is aiding and abetting Mexican investors. There is no way open to U.S block producers to ship to Mexico competitively since no one is helping us. As a matter of fact, the U.S. Government, by refusing to put tariffs on Mexican block imported to the

U.S. is also aiding and abetting the Mexican Government and Mexican investors with block plants along the Mexican border.

Since a principle purpose of these hearings is to establish the desirability of extending the present duty free list of Generalized System of Preferences that expire in January, 1985, and since concrete block and brick are presently included on this list, we must strongly appeal to the committee to consider granting relief by allowing this program to expire.

Chairman GIBBONS. Thank you very much.

Let me ask you a question—well, let's hear the other witness.

Would you like to be heard, sir?

Mr. HESLIP. That completes our statement, Mr. Chairman.

Chairman GIBBONS. Fine.

Let me ask you, what would the tariff jump to on the block and brick if GSP expired; can you tell me? I don't know offhand.

Mr. MCCOY. It would be approximately 6.9 percent.

Chairman GIBBONS. 6.9 percent, OK.

I hate to suggest lawsuits to anybody, but have you all thought about bringing any kind of countervailing duty action against Mexican producers of these block and brick for the subsidies involved in them?

Mr. MCCOY. Mr. Chairman, we thought that being in front of you was more important than filing the suit. But after we leave you, we will file it. They are second on the list.

Chairman GIBBONS. They are second on the list, OK. That is going to be interesting. I am glad that you as an American are pursuing your rights under the current law, as I see it.

Mr. MCCOY. Yes; we intend to pursue every right available to us. We don't intend to go down without a fight.

Chairman GIBBONS. Well, that is good. I realize it is a burdensome thing to pursue that, and we hope that our procedures are not so excessively costly that it discourages you from pursuing your remedy.

Mr. MCCOY. I thank you for that. The only thing, from a private businessman viewpoint, is that it is going to cost me money to prove to the Government that what I have been saying is true, and then they will get the 6.9 percent—I won't.

Chairman GIBBONS. I understand. Of course, they could get even more than that.

Do you know offhand how great these subsidies amount to; how much they affect the price of the block?

Mr. MCCOY. They affect it considerably. If you start with the upstream subsidies on fuel and graduate all the way through, it is amazing. If we had just part of them and were able to compete as openly and freely with Mexico—you see, Mr. Chairman, if we try to take our products to Mexico, we can't take our trucks inside the country. That is No. 1.

No. 2, there is a 100-percent duty on our products if we try to go their way. Their country is protecting their manufacturers.

Chairman GIBBONS. I understand.

What is the difference between a comparable block, the difference in cost between a block made in your plant and the same block made in a Mexican plant? Can you compare them? Are they built to about the same standards? Are they under building codes that require certain strength, compression strength, tensile strength, and things like that?

Mr. McCoy. Yes; in the United States, everyone follows ASTM specifications, and that is C–90.

Chairman Gibbons. Are the Mexican blocks meeting that standard?

Mr. McCoy. In many instances, they are not. The reason they are not is they don't have to, because the inspectors in the United States don't have the knowledge to understand what an ASTM specification is, in many instances. We are not as sophisticated down in south Texas as they are in Houston, San Antonio, Dallas, and New York. We are one of the last frontiers.

Chairman Gibbons. I realize you may not be able to quantify this exactly objectively because of the quality of block and everything else, but for a comparable block, how much different is the cost? I am talking retail price now.

Mr. McCoy. I can give you my costs. They are about 40 cents different per block between my block and their block.

Chairman Gibbons. What does a block cost?

Mr. McCoy. 98 cents versus 58 cents. Mexico will charge anywhere from 28 to 65 cents a block on a retail level, depending on what the market will bear.

Chairman Gibbons. So removing GSP really is not the solution to your problem, although it would help?

Mr. McCoy. It is part of the solution.

Chairman Gibbons. It is part of the solution; yes. And I imagine there are some wage differentials between your—you are caught under our minimum wage laws, and their wage laws are probably less.

Mr. McCoy. We have social security, FICA, minimum wage, and their wage is approximately $8 to $10 a day per man, and you are looking at about a 10½- or 12-hour day on their side.

Chairman Gibbons. On your approximately $1 block, how much of that is wage cost?

Mr. McCoy. Well, I——

Chairman Gibbons. Your block is running right at $1. Use $1 because it is easier to work with.

How much of that $1 is wage cost; do you know that? You have 60 employees, I understand. I am just asking for a rough figure.

Mr. McCoy. I can give you a pretty accurate figure if I can get to my briefcase.

Chairman Gibbons. Well, if you would do that, we would like to have it.

Mr. McCoy. Mr. Chairman, I have 6 cents a block in wages—33 percent of that 98 retail price is cost of fuel; and the aggregate cement and fuel to manufacture my product, also.

Chairman Gibbons. 6 cents of each block is wages, then. So, even if your wages were zero, that wouldn't make all the difference. We have got about 3 cents in GSP and 6 cents in wages, and you have got about a 40-cent swing in there. So, we are down to about 31 cents.

The rest of it, you figure, is subsidy?

Mr. McCoy. Yes; very close to that, yes.

Chairman Gibbons. Either upstream subsidy or some other kind of subsidy.

Mr. McCoy. I think it was very well proven in your last committee hearings that there is, as far as I am concerned—and I am not an attorney and I am not versed in international law—but I do know how to make block and brick, and I was very impressed at the last committee meeting. I left here feeling there is an upstream subsidy on fuel and it should be taken care of.

When you looked at evidence presented to you last time, it was $4 a barrel versus $27 a barrel. I don't know what that is called, if it is not an upstream subsidy.

Chairman GIBBONS. It is a subsidy, in my books. I am having a little trouble convincing all the members of the subcommittee that it is a subsidy, but it certainly looks like it, smells like it, and acts like a subsidy, to me.

Well, Mr. Jenkins, do you have any questions?

Mr. JENKINS. No, Mr. Chairman. No questions.

Chairman GIBBONS. We appreciate your coming.

Mr. McCoy. Mr. Chairman, I appreciate your time.

Chairman GIBBONS. Hopefully, we can find a solution to this matter soon.

Mr. McCoy. I hope you do, too, and soon.

Chairman GIBBONS. Pursue your rights vigorously. We will follow your case and see how it comes out.

Mr. McCoy. Thank you. And I will keep you abreast of our case.

Chairman GIBBONS. Thank you, sir.

We have the Foreign Trade Association of Southern California; the Laredo Customhouse Brokers Association; El Paso Customhouse Brokers Association; Southern Border Customhouse Brokers Association; and International Commerce Committee of the Los Angeles Area Chamber of Commerce.

Mr. Altschuler, please come forward.

STATEMENT OF IRWIN P. ALTSCHULER, COUNSEL, ON BEHALF OF FOREIGN TRADE ASSOCIATION OF SOUTHERN CALIFORNIA; LAREDO CUSTOMHOUSE BROKERS ASSOCIATION; EL PASO CUSTOMHOUSE BROKERS ASSOCIATION; SOUTHERN BORDER CUSTOMHOUSE BROKERS ASSOCIATION; AND INTERNATIONAL COMMERCE COMMITTEE OF THE LOS ANGELES AREA CHAMBER OF COMMERCE; ACCOMPANIED BY DAVID AMERINE

I am Irwin P. Altschuler of Stein Shostak, Shostak & O'Hara. With me is David Amerine of our firm. We represent the groups you mentioned a moment ago. In the interest of time, I will not read our prepared statement, in recognition of the fact that it will be placed in the record.

Chairman GIBBONS. Yes; go right ahead.

Mr. ALTSCHULER. Thank you.

Let me begin, Mr. Chairman, by saying that the members of the organizations for whom we appear are vitally interested in developments affecting international trade, including the operation of the U.S. GSP. In particular, the members of these organizations are increasingly aware, as are many Americans, of the linkage between the economies of Mexico and the United States. The members of the organizations that we represent wish to emphasize their view that because the overall economic health of Mexico is of vital im-

portance to the United States, the benefits available under GSP should be liberally extended to Mexico.

Mr. Chairman, our statement really consists of two components, one of which addresses the views of the members of these organizations as to the importance of increasing the opportunities of beneficiary countries, particularly Mexico, to export to the United States in order to generate foreign exchange to buy our products. We all heard the first witness today speak at some length on those matters, and I will leave our comments on these points to address some technical aspects of GSP renewal. We would welcome any questions concerning the economic side of the question.

To summarize the position of those for whom we testify, the existing statutory authority for the GSP should be renewed with some improvements, and most of all with a strong indication that the program's original goals, purposes, and underlying principles are to remain intact. Specifically, these organizations and we believe that the renewed GSP should take into account the following:

The ongoing goals of the GSP are to assist developing countries to increase exports, diversify economies, and lessen dependence on foreign aid.

The U.S. GSP results in significant benefits to U.S. exporters and other U.S. economic interests by increasing the ability of BDC's, particularly Mexico, to obtain U.S. dollar earnings, thereby increasing their ability to purchase U.S. exports.

The current competitive need limitations which are part of the GSP law have operated effectively, although in some cases too restrictively, in phasing out GSP benefits as developing countries become internationally competitive in specific products and in providing protection to U.S. domestic industry. Therefore, the current competitive need limitations should be used as the sole criteria, except in unusual cases, for determining that a particular BDC has become internationally competitive in a given article.

The President's 5-year report on the operation of the GSP confirmed that competitive need exclusions have rarely increased trade opportunities of lesser developed beneficiary countries. We believe experience has shown that discretionary graduation of a beneficiary country with respect to a given article has not and will not in most cases result in increased export opportunities for lesser developed countries. Therefore, we believe that discretionary graduations should be made only in the presence of clear evidence that such action will accrue to the benefit of a lesser developed BDC.

Further, we believe the renewed GSP should provide the President with discretionary authority to waive the existing competitive need limitations. Quite importantly, the members of the organizations that we represent believe that the United States in the past has recognized, and should continue to do so, that GSP programs of the developed nations are intended to be nonreciprocal tariff preference systems.

Finally, the members of our organizations believe that the GSP rules of origin should be modified so that the value of U.S. components incorporated in the exported article is counted toward satisfying the 35-percent local content rule.

I would like, Mr. Chairman, just to very briefly address a couple of the technicalities that are part of the administration's proposal.

The members of our groups are particularly concerned that the administration's proposal directs the President to give great weight to the extent a BDC has given assurances of equitable and reasonable access to its home market in determining whether to waive a competitive need limit, which would be reduced in the new legislation.

Just to elaborate a moment, Mr. Chairman, we believe that the United States has recognized in the past and stated its policy that GSP is a unilateral tariff concession. In fact, in the President's 5-year report it was reported that at the Tokyo round of MTN negotiations in 1979, the United States took the position that GSP was a temporary nonreciprocal program and therefore outside the scope of the MTN. We believe that this philosophy should be reflected in the renewed GSP.

The organizations we represent believe that equitable and reasonable access to BDC markets—which have been recognized as the most important export markets of the United States—can be best assured by allowing the BDC's continued access to U.S. markets.

As one of the earlier witnesses testified this morning, from their exports to the United States, BDC's can obtain needed dollars which enable them to purchase U.S. exports. Without those dollars, they are unable to buy exports from the United States.

That concludes the summary of our statement, Mr. Chairman. Thank you.

[The statement of Mr. Altschuler follows:]

STATEMENT OF THE FOREIGN TRADE ASSOCIATION OF SOUTHERN CALIFORNIA; INTERNATIONAL COMMERCE COMMITTEE, LOS ANGELES AREA CHAMBER OF COMMERCE; LAREDO CUSTOMHOUSE BROKERS ASSOCIATION; EL PASO CUSTOMHOUSE BROKERS ASSOCIATION; AND SOUTHERN BORDER CUSTOMHOUSE BROKERS ASSOCIATION

SUMMARY

1. The on-going goals of the GSP are to assist developing countries to increase their exports, diversify their economies, and lessen their dependence on foreign aid, and these goals should be reflected in the renewal of the U.S. GSP program.

2. The U.S. GSP results in significant benefits to U.S. exporters and other U.S. economic interests, by increasing the ability of BDCs to obtain U.S. dollar earnings, thereby increasing their ability to purchase U.S. exports.

3. The current "competitive need limitations," which are part of the U.S. GSP law, have operated effectively, although in some cases too restrictively, in phasing out GSP benefits as developing countries become internationally competitive in specific products, and in providing protection to U.S. domestic industry. Therefore, the current competitive need limitations should be utilized as the sole criteria, except in unusual cases, for determining that a particular beneficiary country has become "internationally competitive" in a given article.

4. The graduation of a BDC with respect to a given article has not and will not, in most cases, result in increased export opportunities for lesser developed BDCs. Therefore, discretionary graduations should be made only in the presence of clear evidence that such action will accrue to the benefit of a lesser developed beneficiary country.

5. The renewed GSP should provide the President with discretionary authority to waive the competitive need limitations.

6. The United States has recognized that the GSP programs of the developed nations are intended to be non-reciprocal tariff preferenced systems, and the renewal of GSP should reflect this policy.

7. The GSP's rules of origin should be modified so that the value of U.S. components incorporated in the exported article is counted toward satisfying the "35 percent local content rule."

INTRODUCTION AND ENDORSEMENT OF THE U.S. GSP

I am Irwin P. Altschuler, of the law firm Stein Shostak Shostak & O'Hara of Los Angeles, California and Washington, D.C. Our firm has for many years specialized in Customs and international trade matters.

We are pleased to present this statement today on behalf of the above-listed organizations. All of these organizations strongly support the goals of the U.S. GSP program, and believe that the program has operated well, and in a manner which has, in general, been appropriate to attaining those goals. In sum, the organizations for whom we appear today emphatically endorse the renewal of the U.S. GSP, with certain limited modifications designed to ensure that the program's future operations will be entirely consistent with the aims of GSP.

The Foreign Trade Association of Southern California is an organization composed of over 500 firms engaged in international trade activities in Southern California and throughout the Southwest. The International Commerce Committee of the Los Angeles Area Chamber of Commerce has over 4,000 members in five counties in Southern California.

The Laredo Customhouse Brokers Association is comprised of 25 (out of 27) licensed U.S. customhouse brokers in Laredo, Texas. The firms belonging to this Association employ approximately 175–200 employees and handle approximately 1,500 transactions (U.S. Customs entries) per week.

The El Paso Customhouse Brokers Association consists of nine member companies, which employ approximately 100 persons and handle approximately 750–1,000 transactions per week.

The Southern Border Customhouse Brokers Association is comprised of approximately 25 customhouse brokers involved in the importation of articles along the southern border of the United States. The Southern Border Customhouse Brokers Association represents customhouse brokers in all Customs ports of entry from Brownsville, Texas to San Ysidro California.

Members of the organizations for whom we appear today are vitally interested in developments affecting international trade, including the operation of the U.S. GSP program. In particular, members of these organizations are increasingly aware, as are many Americans, of the linkage between the Mexican and U.S. economies. Accordingly, we wish to emphasize that because the overall economic health of Mexico is of vital importance to the United States, the benefits available under GSP should be liberally extended to Mexico.

I. ENDORSEMENT OF GSP, AND IMPORTANCE OF THE PROGRAM TO MEXICO

GSP is an important aspect of the United States' economic and foreign policy, which helps BDCs diversify their economies and increase their export possibilities. Moreover, it has been recognized that developing countries currently represent the United States' most important export markets, and that the GSP, by increasing the ability of the BDCs to obtain U.S. dollar earnings, increases the ability of the BDCs to purchase U.S. exports. In other words, increased export opportunities for the United States are a natural and predictable consequence of the U.S. GSP program.

Thus, the position of those for whom we testify today is that the existing statutory authority for the GSP should be renewed with some improvements and, most of all, with a strong indication that the program's original goals, purposes and underlying principles are to remain intact. Specifically, the renewed GSP should take into account the following:

1. The on-going goals of the GSP are to assist developing countries to increase their exports, deversify their economies, and lessen their dependence on foreign aid.

2. The U.S. GSP results in significant benefits to U.S. exporters and other U.S. economic interests, by increaseing the ability of BDCs to obtain U.S. dollar earnings, thereby increasing their ability to purchase U.S. exports.

3. The current "competitive need limitations" which are part of the U.S. GSP law have operated effectively, although in some cases too restrictively, in phasing out GSP benefits as developing countries become internationally competitive in specific products, and in providing protection to U.S. domestic industry. Therefore, the current competitive need limitations should be utilized as the sole criteria, except in unusual cases, for determining that a particular beneficiary country has become "internationally competitive" in a given article.

4. The graduation of a BDC with respect to a given article has not and will not, in most cases, result in increased export opportunities for lesser developed BDCs. Therefore, discretionary graduations should be made only in the presence of clear evidence that such action will accrue to the benefit of a lesser developed beneficiary country.

5. The renewed GSP should provide the President with discretionary authority to waive the competitive need limitations.

6. The United States has recognized that the GSP programs of the developed nations are intended to be non-reciprocal tariff preferenced systems.

7. The GSP's rules of origin should be modified so that the value of U.S. components incorporated in the exported article is counted toward satisfying the "35 percent local content rule."

We are aware that on July 22, 1983 USTR transmitted to the Chairmen of the House and Senate Trade Subcommittees the Administration's proposed GSP renewal legislation, we are pleased that the Administration has strongly endorsed the renewal of GSP. However, we are greatly concerned that some provisions of the Administration's proposal are contrary to the overall economic interests of both beneficiary countries, particularly Mexico, and of the United States, and are not in keeping with the principles which underlie the GSP programs of the world's developed nation. Therefore, portions of our testimony will refer to the Administration's initial proposal.

We are especially concerned about the apparent trend, exhibited in the last two annual product reviews conducted by USTR, and further enunciated in the Administration's proposed legislative package to Congress to renew GSP, to limit the benefits of GSP. We strongly believe that this policy is unwise, both economically and politically, as it will not only hamper the emergence of some of the more advanced developing countries into the ranks of the developed nations, but will also cause increased political tensions between these nations and the United States. This is particularly so in the case of Mexico, a country struggling to recover from its worst economic crisis in over fifty years, and whose recovery is in large part dependent on its ability to export to the United States.

A. Opposition to discretionary graduation and reduced competitive need limitations

Since the inception of the U.S. GSP program, it has been the intention of the United States to phase out GSP benefits as developing countries become "internationally competitive" in specific products. The Trade Act of 1974, which enacted the U.S. GSP program, established the so-called "competitive need limitations" as the means by which such phasing out would be accomplished. In the President's Report to the Congress on the First Five Year's Operation of the U.S. Generalized System of Preferences (GSP,) it was noted that competitive need exclusions grew from $1.9 billion in 1976 to $3.2 billion in 1978.[1] In 1982, competitive need exclusions exceeded $7.1 billion.[2]

Thus, the statutory competitive need limitations, operating as the criteria for determing whether a BDC is internationally competitive in a product, have resulted in the exclusion of a tremendous volume and value of BDC exports from GSP eligibility. However, although the President has reported to the Congress that the existing competitive need limits have operated effectively in excluding competitive beneficiaries from receiving GSP benefits by excluding major beneficiaries from receiving duty-free treatment for a large share of their eligible trade, the President has also reported that these limits have not resulted in a wider distribution of GSP benefits among developing countries. As the President's Five Year Report stated, even in product areas where major beneficiaries have been excluded from GSP benefits as a result of the statutory competitive need limitations, a lack of productive capacity has prevented low income beneficiaries from achieving large increases in their GSP exports.[3]

Given the fact that the statutory competitive need limitations have operated to exclude a large share of the major beneficiaries' trade from GSP eligibility, and that such exclusions have not resulted in a wider distribution of GSP benefits, it simply makes no sense for the U.S. government to "graduate" a BDC with respect to a specific product unless there is clear and convincing evidence that such a discretionary graduation will result in increased exports by a lesser developed BDC.

In light of the facts outlined above, we strongly oppose the concept embraced in Section 4 of the Administration's proposed GSP legislation.

Sections 4 would reduce competitive need limits by one-half for products from countries "which have demonstrated a sufficient degree of competitiveness *relative*

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[1] Report of the Congress on the First Five Years Operation of the U.S. Generalized System of Preferences (GSP), transmitted by the President on April 17, 1980, WMCP 96-58, at 3. Hereinafter cited as "President's Report to Congress."

[2] Office of the United States Trade Representative, Press Release 83/12 (March 31, 1983) at 2. Hereinafter cited as "USTR Press Release 83/12." See also—Annex to USTR Press Release 83/12, Table 6.

[3] President's Five Year Report, at 30.

to other beneficiary countries which respect to an eligible article." (Emphasis added). The adoption of such a provision would be radical departure from current administrative practice notwithstanding the Administration's erroneous contention in its "Summary of Generalized System of Preferences Renewal Act of 1983" that a particular BDC's competitiveness relative to other GSP beneficiaries is a factor currently considered in the administration of the President's discretionary graduation authority. Historically, decisions to graduate countries from GSP eligibility with respect to various products have been based on three factors: (1) the country's level of development, (2) the country's competitiveness in the specific product, and (3) the overall economic interests of the United States, including the import sensitivity of the domestic industry.[4] These factors provided the basis for graduation decisions in the 1982 GSP product review,[5] and will be the basis for such decisions in the 1983 GSP product review.[6] Nowhere has it been suggested that the second enunciated factor—a BDC's competitiveness in the specific product—means its competitiveness as measured against other GSP-eligible imports; the measure of competitiveness has been, is and should remain competitiveness relative to imports from all countries.

To measure a BDC's competitiveness only by examining other GSP eligible exports of the same product would be meaningful only if such exports competed only against other GSP exports. If such were the case, the benefits of the removal of GSP eligibility based on such a comparison would necessarily accrue to other BDCs. However, GSP-eligible trade obviously competes against trade from not only BDCs, but also from the developed countries. Therefore, while we strongly oppose any reduction in the competitive need limits, we would emphasize that any test of competitiveness which would limit a BDC's GSP eligibility for a specific product must be based on competitiveness relative to all countries with respect to a certain article, not only other GSP beneficiaries.

Those interested in the economic well being of Mexico view Section 4 of the Administration's proposed bill with particular concern. Mexico is the only BDC which borders the U.S., and as a result of its geographic contiguity to the U.S., Mexico exports many GSP eligible products to the United States which other BDCs, due to their geographic disadvantage, do not, and in many instances, cannot, export to the United States, or export only in small quantities. A comparison of the value of Mexican imports of such items only to other GSP eligible imports would indicate that Mexico was very competitive with respect to these items. In fact, such imports from Mexico might account for only a small percentage of total U.S. imports of the item in question, since imports from developed countries (especially Canada) would not be taken into account. The benefit from removing GSP eligibility from such products from Mexico would not result in increased imports from other BDCs, but would more than likely allow an even more developed country to fill Mexico's place.

A case illustrating this point can be found in the ongoing 1983 GSP product review. A petition has been filed requesting the graduation of certain glass containers from Mexico from GSP eligibility. The petition argues that these glass containers from Mexico no longer need GSP to compete effectively in the U.S. market, and in support of this contention sets forth data which show that Mexico accounted for 59.60 percent of the total value of U.S. GSP eligible imports of glass containers in 1982, 46.68 percent in 1981, and 53.40 percent in 1980. However, what that petition fails to mention is the fact that in 1982, imports of these glass containers from Mexico accounted for only 5.21 percent of total U.S. imports, and only 2.61 percent in 1981 and 3.11 percent in 1980. As can be seen, despite the fact that Mexico accounted for a large percentage of the value of GSP imports, it accounted for only a small percentage of the value of total imports. If it is ultimately decided to remove GSP eligibility from this product from Mexico, the benefits will more than likely accrue to one of the developed countries, not another BDC. Such a result would surely not be consistent with the intent of the GSP program.

The mere fact that a BDC has demonstrated competitiveness in a certain product relative to other GSP imports does not necessarily have any relation to that BDC's competitiveness with respect to that product relative to overall U.S. imports. This has been recognized by the USTR in making its graduation decisions. USTR has looked to a country's overall competitiveness with respect to a specific product, not its competitiveness relative to other GSP beneficiaries. The comparison which the Administration's proposed Section 4 calls for is at best irrelevant, and at worst truly deceptive. We strongly urge that Congress reject the lowering of the current competitive need limits. However, if the limits are to be lowered under certain circum-

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[4] Id., at 69.
[5] USTR Press Release 83/12, at 2.
[6] 48 Fed. Reg. 33400 (1983).

stances, then Congress should make clear that a BDC's eligibility should not be limited unless there is clear evidence that such action would accrue to the benefit of one or more of the lesser developed BDCs, and that the overall interests of the United States would be served. The Administration's proposal assures neither of these.

B. Endorsement of authority to waive competitive need limits; opposition to conditioning waivers on assurances of market access

We believe that with regard to the dollar value competitive need limitation, the law should provide the President with discretion to waive the removal of GSP benefits, or restore benefits, when, for example, excessive increases in costs of raw materials have led to increased value of imports without actual increase in shipments to the United States, or when total imports from BDCs of a product are deemed not to be a significant part of total U.S. imports of that product. Discretion to waive the 50 percent limitation should also be built into the new law. The law should permit the President to invoke such discretion if failure to waive the 50 percent limit would likely cause trade to move to an industrialized country, or would otherwise bring about results unintented by the GSP.

Proposed Section 3 of the Administration's bill, by directing the President to give "great weight" to the extent a BDC has given "assurances" of equitable and reasonable access to its home market in determining whether to waive the competitive need limit, would transform the GSP program into a lever with which the United States may seek to pry open foreign markets by demanding greater access for U.S. goods before agreeing to waive the (probably already reduced) competitive need limit. This would be a particularly disturbing development in the U.S. GSP program, because it would turn GSP into a weapon to be used against BDCs to obtain access to their markets for U.S. exports. Such a perversion of the GSP program, which was enacted with the intent of enabling BDCs to secure a foothold in the U.S. market, clearly has no place in the law.

The concept of a generalized system of tariff preferences was introduced formally at the first United Nations Conference on Trade and Development (UNCTAD), a conference whose purpose was to examine the means for increasing the economic wealth of the developing countries of the world through trade rather than aid. At this conference the developing countries claimed that one of the major impediments to their economic growth was their inability to compete with the developed countries in the international trading system. GSP programs have been established by developed countries to meet this concern. Neither at that time, nor at any time thereafter, was GSP intended to provide the developed countries with increased leverage to gain access to BDC markets, something the Administration seeks to accomplish with its proposed GSP legislation.

That GSP was not to be used to gain reciprocal concessions from BDCs has been clearly recognized by the United States government. In the President's Five Year Report, it was reported that at the Tokyo Round of Multilateral Trade Negotiations (1979), the United States has taken the position that "GSP was a temporary, *non-reciprocal* program and therefore outside the scope of the MTN." [7] (Emphasis added.) As recently as March 31, 1983, USTR, in announcing the results of the 1982 GSP product review, described GSP as "a program of *unilateral tariff concessions* granted by the United States to developing countries to assist in their economic development." [8] (Emphasis added.)

Accordingly, the scheme of the Administration's proposed bill, which would first shrink BDC's benefits, and then enable BDC's to buy them back by providing some as yet undefined assurances of reasonable access to its home market, is totally inappropriate and should not become law. If Section 3 of the Administration's proposed bill actually receives serious consideration, it will be of particular concern with respect to Mexico, which in the 1983 GSP product review has 55 items, having a total value of almost $1.7 billion, declared ineligible for GSP treatment because of competitive need limitations. No other country had more items excluded from GSP eligibility than Mexico on this basis, and only Taiwan had more trade, in terms of dollars, declared ineligible for GSP treatment.

Because so much trade from Mexico is ineligible for GSP treatment due to competitive need limits, the new emphasis on reciprocity contained in the Administration's bill is viewed with apprehension in Mexico. Even though Mexico is and has been for some time the United States' third largest export market, and more U.S. goods are exported to Mexico than to any other BDC, if this provision were to be

[7] President's Five Year Report, at 3.
[8] USTR Press Release 83/12, at 3.

enacted into law, it would be possible for the United States to demand in an inappropriate manner even more access to Mexican markets in exchange for waiving the application of the competitive need limits for certain products.

That such a scenario could be possible is due in part to the ambiguity of proposed Section 3. What constitutes "equitable and reasonable access"? Is it to be determined on the basis of overall trade, or on a product-by-product basis? Surely the Administration does not mean that a BDC must provide "equitable and reasonable access" to U.S. exporters for every product it exports to the United States which receives GSP treatment. Again, we believe that Section 3 of the proposed bill, and the concept which is its basis, must be rejected. However, if Section 3 is considered by Congress, a much more precise definition of "equitable and reasonable access" should be included to equate the term with overall trade, rather than trade in individual products.

Congress should be aware that the GSP program is already perceived in many of the BDCs as being administered without due regard for the economic and political realities present in developing countries. This should be the cause of concern for both the Administration and the Congress, since the intent of this program was to help the BDCs develop economically—it was not meant to be a further irritant in U.S. relations with them. This is particularly so in the case of Mexico, located on our southern border and in what has become one of the major areas of focus and concern of U.S. foreign policy—Central America. In this increasingly volatile region, Mexico stands not only as one of the few remaining democratic states, but also as the most stable nation in the region. At this time, U.S. policy should be directed at strengthening ties with Mexico; yet, Congress should know that the administration of the GSP—most recently the results of the 1982 GSP product review—has at times served to exacerbate tensions between the two countries. The Mexican media reported the results of the 1982 GSP product review in the following manner:[9]

"The tax imposed by the Reagan administration on 55 Mexican products is unjustified, lacking political and economic content, a blow to the industrialists with creditors abroad, and [will result in] a loss estimated at $1.6 billion for this year, government and private sector sources have indicated. Mexican Under Secretary for Foreign Trade Luis Aguilera said the taxes announced on Wednesday of last week, which directly affect 16 Mexican export products, do not take into account the country's current economic situation. It is a case of unjustified protectionism, he said, applied to the only country in the world which devotes 66 percent of the foreign currency it collects to purchases in the U.S. markets."

We respectfully submit that the power to dangle the possibility of waiver of reduced competitive need limits in exchange for some type of assurance of increased access to Mexican markets—when U.S. exports have already penetrated Mexico to a tremendous extent—would not serve either the economic or political interests of the United States.

It is our belief that "equitable and reasonable access "to BDC markets for U.S. exports can best be assured by allowing BDCs continued access to U.S. markets. From their exports to the U.S. BDCs obtain needed dollars which enable them to purchase U.S. exports. Without such dollars, BDCs are unable to import goods from the U.S. Therefore, attempts to limit BDC access to U.S. markets will have the unwanted effect of reducing U.S. exports to the BDCs. Mexico is a perfect illustration of this point -66 percent of the foreign currency it obtains from exports is devoted to the purchase of U.S. goods.[10] But, as Mexican Foreign Minister Bernardo Sepulveda stated this past April, "Mexico will only be able to maintain its imports insofar as [it] generates the means to pay for them."[11] Over the past few months reports have appeared in the press [12] about how the United States has been hurt by the sharp drop in Mexican imports from the United States, due to Mexico's lack of foreign exchange, which can only be generated by exports. As Mexican President Miguel de la Madrid recently stated, the growing protectionism in the United States and other developed countries is affecting not only the economies of the developing nation, but also their own domestic economies. He asked the United States "to understand that if we are to buy again, they must buy more from us." [13] Continued access to the U.S. market is becoming even more important to Mexico in light of the political and military situation in Central America. It has been reported that Mexico's commer-

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[9] NOTIMEX (in Spanish), 5 April 1983, reported in FBIS, 6 April 1983, at M1.
[10] Id.
[11] The Washington Post, April 19, 1983, at A12:1.
[12] Id.; The Wall Street Journal, May 23, 1983, at 39:1.
[13] El Universal (in Spanish), 29 June 1983, reported in FBIS, 6 July 1983, at M1.

cial trade with Central America has declined by 30 percent due to the current tensions in the region.[14]

Mexico is not the only developing country which depends on exports to provide foreign exchange, and these countries' inability to obtain the needed foreign exchange to finance imports has hurt U.S. exporters and threatens to slow the U.S. economic recovery.[15]

This fact was recently highlighted by an article appearing in the Federal Reserve Bank of New York's Quarterly Review.[16] The findings presented in this article, summarized in the paragraphs below, shows how the continuing debt servicing problems faced by Mexico, as well as many other Latin American countries, have had a serious, negative impact on the U.S. economy.

Due to the acute shortage of foreign exchange prevalent throughout most of Latin America as a result of the Latin American debt crisis, Latin American countries have been severely restricted in the amount of merchandise they have been able to import from the United States. Although U.S. exports to Latin American accounted for only 17 percent of total U.S. exports in 1981, between 1978 and 1981 these exports had grown over 50 percent faster than U.S. exports to the rest of the world. In 1982 U.S. merchandise exports to Latin America dropped nearly 9 billion dollars, accounting for over 40 percent of the total decline in total U.S. exports in 1982.

U.S. exports to Mexico have been particularly hard-hit by Mexico's debt service crisis. Mexico, the third largest trading partner of the United States, accounted for nearly half of U.S. exports to Latin America in 1981. Due to the jolting economic crisis experienced by Mexico in the last half of 1982 and the first half of 1983—a crisis which Mexico is still struggling to extricate itself from—U.S. exports to Mexico fell by one-third in 1982, and it is expected that exports in 1983 will show a similar decline.

Several of the U.S. industries which have suffered most from the decline in exports to Latin America are the same U.S. industries that were among the hardest hit by the U.S. recession. Particularly hard-hit by the decline in exports to Latin America since 1981 have been the machinery and transportation equipment industries, as well as exports grouped together in statistical compilations as "other manufactured goods."

However, the declining U.S. exports have not been limited to traditional manufacturing industries alone. Exports of high technology products, which initially were unaffected by the Latin American debt crisis, have declined approximately 16 percent in 1982, and, during the first half of 1983 they have declined 38 percent from the last half of 1982.

Obviously, the impact of the Latin American debt crisis on the U.S. economy has been severe. In 1982 alone, nearly 9 billion dollars of merchandise exports to Latin American countries were lost, costing the American economy some 225,000 jobs. More than three-quarters of these lost jobs are estimated to have occurred in the machinery, transportation equipment and other manufactured goods sectors of the economy, where unemployment in 1982 was already generally higher than the average U.S. unemployment rate. Furthermore, falling exports to Latin America are estimated to have contributed directly to about a 0.3 percent decline in the real U.S. GNP in 1982. Figures for the first half of 1983 indicate this trend is continuing. During this period, U.S. exports to Latin America fell an additional 19 percent over the previous 6-month period, and were down by more than one-third from the first half of 1982. It has been estimated that U.S. exports to 20 Latin American countries in 1983 will fall some 40 percent below the level reached in 1981. It is further estimated that if the export projections for 1983 are accurate, nearly 400,000 U.S. jobs will have been lost during 1982 and 1983 as a result of declining merchandise exports to Latin America.

In sum, the U.S. economy generally, and U.S. industry in particular, benefits from the ability of BDCs to purchase U.S. goods. Restricting the access of these countries to U.S. markets by limiting the availability of benefits under the U.S. GSP program will decrease their ability to obtain the foreign exchange needed to purchase U.S. goods, and in the long run will cause serious harm to many U.S. industries.

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[14] Havanah Domestic Service (in Spanish), 16 June 1983, reported in FBIS, 17 June 1983, at M1.

[15] See "Exports to Developing Countries Fall, Possibly Slowing Recovery in U.S.," The Wall Street Journal, March 28, 1983, at 25:4.

[16] Dhar, "U.S. Trade with Latin America: Consequences of Financing Constraints," FRBNY Quarterly Review (Autumn 1983) 14. This article was based in part on a study prepared by Lester A. Davis of the U.S. Department of Commerce, entitled "Domestic Employment Generated by U.S. Exports." (Project DTR-27-83)

The Administration's goal of obtaining further access to BDC markets is a desirable one, but the means by which it seeks to achieve this goal is unwise. Using the GSP program as a lever to obtain such access, by tying waivers of competitive need limits to assurance of "equitable and reasonable access" to BDC markets, perverts the purpose of GSP, which is to give BDCs access to markets in the U.S. and other developed countries. The GSP program can be expected to increase U.S. exports to BDCs by providing BDCs with markets in the United States. By being able to export to the United States, BDCs obtain foreign currency, which enables them to import from the U.S. Thus, conditioning competitive need waivers upon market access assurances would be inappropriate to the goals and purposes of the GSP. To couple such a conditional waiver with a requirement that those competitive need limits be reduced—without evidence that trade would shift to lesser developed BDCs—would needlessly restrict GSP benefits, contrary to the interests of the United States and beneficiary countries.

C. Modification of rules of origin

We believe that certain modifications to the U.S. GSP rules of origin would foster the goals of GSP, as well as provide significant benefits to U.S. exporters. Most importantly, the "35 percent local content" rule should be changed in the new legislation. Specifically, a provision should be enacted enabling the value of U.S. materials, fabricated parts, and other physical imputs to be counted toward satisfying the local content requirement.

We suggest that the current 35 percent local content rule be continued in the new legislation. In addition, however, U.S. origin content should be counted toward satisfying the requirement. Additionally, we recommend that when two or more BDCs produce a product, cumulative fulfillment of the local content rule should be permitted. Finally, with regard to the rules of origin, we recommend that the so-called "double substantial transformation" requirement be abandoned in favor of the criteri which apply to the legal requirements of country of origin marking.

These suggestions are all consistent with the goals of the GSP program, and their implementation would foster development in BDCs with benefits accruing to U.S. consumers and U.S. businesses, without any harm to U.S. domestic industry.

Chairman GIBBONS. Well, thank you.

You raise the haunting question that keeps coming back to haunt us, and that is, we can't export unless we also import. One of the problems right now is we are importing $100 billion more worth of goods than we are exporting, and our balance is horribly out of balance. If, a few years ago, anybody would have told me this country would come anywhere near tolerating a $100 billion merchandise trade deficit, I would have said, "Well, not in my lifetime."

I have been surprised at the ability of our economy to absorb it. It is far larger than I think is desirable for our country. It appears to me that we are punishing a lot of producers in an almost reckless sort of manner, and I don't know how much longer it can possibly go on. We have to get this matter straightened out somehow.

I realize it is an extremely complex problem and, when you get right down to it, probably the problem is us. As I analyze the problem—and I say this because I am not certain I am right—our domestic fiscal policy, which I would have to characterize as nothing more than riverboat, gambler type of domestic policy as a fiscal policy, is so out of whack that we have to have a monetary policy that tightens the money supply, drives up the real interest rates, artificially strengthens the dollar, and thereby makes imports extremely attractive and exports impossible.

We are killing our farmers. We are killing our industrial capacity—not all of it, but certainly we are injuring a large portion of it. We are injuring a lot of people that work in all these areas. And I don't know where this ends.

Our exports to Mexico have dropped by some $7 billion last year. The Mexican balance of trade has now swung $12 billion, from a minus to a plus. Every major block of countries in the world is running a surplus of trade with the United States. It used to be that poor, old Communists always had to buy more from us than they could sell because of the nature of their systems. But even that is not true any more.

It seems to me that the American money lenders have been amply protected by governmental intervention, but the rest of society has had to pay for perhaps some proliferate loans they have made around the world. I don't know whether I analyze the problem right, but that is the way I analyze it. I realize you are lawyers and dealing in a very technical area, but I don't know how we will ever get political support to extend GSP this year—as desirable as it may be for the lesser developed countries. I just don't see it in the cards.

Mr. ALTSCHULER. Mr. Chairman, we think that would be particularly unfortunate.

Chairman GIBBONS. I think it would be, too.

Mr. ALTSCHULER. Expecially at this time.

Chairman GIBBONS. But, you know, this place operates that way. In my opinion, it does, anyway.

Mr. ALTSCHULER. Certainly, looking at the problem on a global basis with respect to developing countries, and in particular Mexico, with the recession in Mexico and the economic crisis that that country is struggling to overcome—which you are well familiar with—GSP, which is always intended as a temporary tariff preference, at this time is more important than ever to Mexico. In the past, it has been estimated that Mexico uses approximately 66 percent of its foreign exchange reserves in purchasing goods from the United States. With Mexico's decreased earnings of foreign exchange and decreased ability to export, that hurts our exporters.

I know from the experience of our law firm in representing individual Mexican exporters and in representing groups such as those we are testifying for today, that most Mexican exporters of manufactured products utilize to some extent or another inputs that originate from the United States. With inflation in Mexico now, and the devaluation of the peso, it is increasingly difficult for Mexico to maintain those imports of U.S. inputs, and the problem is really quite serious. And we believe that GSP, although not an overall answer, provides some help in remedying the situation.

Chairman GIBBONS. Can you tell me why Mexico persists in its subsidies of all these goods? We just went through this little concrete block exercise.

Mr. ALTSCHULER. Yes.

Chairman GIBBONS. I realize, sure the figures are subject to challenge and maybe somebody will prove them wrong. You heard the gentleman; he said that he could sell the block for roughly a dollar—98 cents, he said. But the same Mexican block was selling for 58 cents or, say, 60, to make it even. That meant there was a 40-cent differential. Six cents was the wage differential; 3 cents was the GSP. So it means that he had about 31 cents of Mexican ingenuity in that block—I will call it ingenuity; probably a subsidy is better—in that block.

Why does the Mexican Government want to leave that much laying on the table? That is something——

Mr. ALTSCHULER. You know, Mr. Chairman——

Chairman GIBBONS. I just don't understand it. They persist in these subsidies, and subsidies worldwide have proven to be an economic disaster for the subsidizer as well as those subsidized against but mainly for the subsidizer.

It looks to me like even with the comparative advantage that the Mexicans have with GSP and with wages, they are leaving 31 cents just laying on the table. That is economic nonsense.

Mr. ALTSCHULER. Of course, I can't really address the cost figures.

Chairman GIBBONS. I know, but I am just asking you the question.

Mr. ALTSCHULER. I think to some extent I can address the issue of Mexican subsidies.

In recent times, especially since the economic crisis in Mexico began, Mexico has taken steps to eliminate its subsidies. Mexico has, in August 1982, eliminated its major export subsidy, a program that provided certain tax incentives to be paid upon the export of merchandise. That subsidy is completely eliminated.

In my experience, at this point in time there is only one practice of the Mexican Government under U.S. law that constitutes an export subsidy, and that is preferential credits for exports.

As you know, Mr. Chairman, at this time Mexico is the only major trading partner of the United States that is without benefit of the injury test. So that if a company such as the previous witness feels that the Mexican Government is subsidizing exports, he can complain in a fashion that will cost him very little. He simply has to write a letter to the Commerce Department and they will perform an investigation. And if it is determined that those products are subsidized, offsetting countervailing duties will be imposed without any requirement that the U.S. International Trade Commission find that his industry is being injured.

Chairman GIBBONS. You are not saying that is his fault, are you? Mexico has just as much opportunity as every other nation on Earth to join the international community.

Mr. ALTSCHULER. Certainly, that is correct.

Chairman GIBBONS. It is their own internal decision. I wouldn't interfere with that.

Mr. ALTSCHULER. Mexico—you are right, Mr. Chairman—is not a member of GATT.

Chairman GIBBONS. That is their choice; it is not anyone else's. We have not told them they can't join.

Mr. ALTSCHULER. No, no. But——

Chairman GIBBONS. Nobody has told them they can't join the international community. They prefer to operate independently from the international community. They have selected the path they want to follow.

Mr. ALTSCHULER. I know, Mr. Chairman. But——

Chairman GIBBONS. It is their internal policy. I don't even doubt its wisdom. Certainly, it is wholly within their own judgment as to what they want to do.

Mr. ALTSCHULER. I think many in the Government of Mexico would like very much to join the GATT. I think they feel for domestic and political reasons they are constrained from doing that.

Under the U.S. countervailing duty law, it is permissible for the United States to extend the injury test to a country if it assumes "substantially equivalent obligations" to those imposed by the GATT and the subsidies code. I know the United States and Mexico have been negotiating for a bilateral agreement on trade matters, particularly subsidies. And I know that in that context it is worth noting, since we are talking about this topic of subsidies, that under the GATT and the subsidies code, Mexico is considered to be a developing country. The rules that GATT and the subsidies code apply to developing countries require only that they "endeavor to eliminate subsidies consistent with their developmental needs." In the case of a number of developing countries, however the United States has sought commitments beyond that before giving the injury test.

For a number of countries—India, for example—the United States accepted commitments that went no further than to require that India "endeavor to eliminate" their subsidies to the extent that so doing would be consistent with their own needs. In the negotiations between the United States and Mexico, Mexico has gone much further than the code would require them in disciplining themselves with respect to their use of subsidies, thereby satisfying the U.S. policy objective.

I know that those concerned with the Mexican economy as it impacts the U.S. economy would like very much to see Mexico given benefit of the injury test. It would not adversely impact U.S. industries. If the previous witness is truly injured as he claims, and as he may well be, it wouldn't eliminate his right to petition the Government and get offsetting countervailing duties at all.

Chairman GIBBONS. All right. It has been an interesting discussion. I wish I knew the answer.

Mr. Jenkins.

Mr. JENKINS. Let me follow up on one question.

Are some of your clients in the cement block area?

Mr. ALTSCHULER. No. We represent a number of companies that, unfortunately, have been involved in countervailing duty investigations. But cement block, no.

Mr. JENKINS. As I understand the previous witness, one of the main concerns was the $4 versus $27 fuel cost in the production of the blocks. Apparently, that makes up a good part of the alleged subsidy in his case.

What is your response to that?

Mr. ALTSCHULER. Well, under the current U.S. countervailing duty law, as interpreted by the Commerce Department which implements the countervailing duty law, that differential in the price maintained for domestically used oil and exported oil or natural gas is not considered a subsidy, and I know the Commerce Department's position is based on its understanding of the interpretation of "export subsidies" made by developed countries all over the world. And I think a number of people, especially the Commerce Department, view that not as a subsidy but as an example of a comparative advantage which Mexico and other oil producing coun-

tries happen to enjoy, and not a subsidy subject to countervailing duties.

Mr. JENKINS. Would we have to change the law if we wanted to invoke the countervailing duty?

Mr. ALTSCHULER. Yes, sir.

Mr. JENKINS. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. I have no questions, Mr. Chairman.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. No questions.

Chairman GIBBONS. Mr. Archer.

Mr. ARCHER. Quickly, Mr. Chairman.

Is it your position—I got in late on your testimony—you feel the law should be changed? Are you supportive of the provisions that are tentatively being proposed by the committee?

Mr. ALTSCHULER. We, in our testimony, support the continuation and renewal of GSP more in line with its current form. Some of the provisions of the proposed legislation we disagree with.

I don't think I testified orally to this, but, for example, the idea of reducing the competitive need limit for products determined to be highly competitive, vis-a-vis exports from other beneficiary countries, we very much oppose that. We don't think the competitive need limit should be reduced.

Mr. ARCHER. Are you in general sympathy with—if, in fact, you correctly stated the administration's position relative to this comparative advantage of oil-producing nations—are you in general sympathy with their position or opposed to that?

Mr. ALTSCHULER. I went back to the GSP with respect to the subsidy.

Mr. ARCHER. We will get to that in just a second.

Mr. ALTSCHULER. I apologize.

No. We agree with the Commerce Department's interpretation. We would not like to see it changed.

Mr. ARCHER. Do you have any concern at all in long-term terms about the cumulative effect of the GSP in conjunction with tax advantages, subsidized interest rates, capital which is provided at a lower rate than the market rate in the world economy, and the potential backwash—which is one of the things that many people complain about in this country today when they talk about imports—from the LDC's, in any event—have you done any study of the cumulative effect of all these benefits? And, if so, do you have a position on that?

Mr. ALTSCHULER. I really have done no study, although it is our feeling that with respect to GSP—especially in cases of alleged subsidies from Mexico, for example, which has no injury test—the presence of a determination of subsidies in a countervailing duty investigation, for example, on imports from Mexico, says nothing at all——

Mr. ARCHER. Let me stop you there. I am not talking about internally generated subsidies on the part of the Mexican Government or any government. I am talking about the idle loans made by the World Bank at subsidized interest rates where our capital is taken at a higher cost and loaned to the LDC's to permit them to build plants which ultimately produce products that come in and com-

pete with us in this country, and they have an advantage capitalized; they have a labor advantage already; an advantage from the standpoint of not having the environmental restrictions and environmental costs we have in this country. Those are not considered subsidies. The labor costs are not considered subsidies.

But we add GSP on top of that when we have gone in and provided free of charge our technology, our consultation, and we have provided our capital at a reduced, below-the-world market price, and added that on to these other innate, inherent advantages of lower labor costs, perhaps lower material costs, and the cumulative effect of GSP, and what sort of battles we may have to fight in the years ahead when you take all of them as one ball of wax.

Mr. ALTSCHULER. I think my initial comment would be that while there may well be some advantages and things of the type you characterize as subsidies in lesser developed countries, there are also a number of tremendous disadvantages in a number of LDC's. There is a tremendous lack of infrastructure that requires a company to make capital expenditures that wouldn't be required if the company were situated in a more developed country.

Mr. ARCHER. Like what?

Mr. ALTSCHULER. In some of our experiences, various plants and so forth have attempted to operate in areas in Mexico where there are no existing power lines, no existing roads, no existing sewage services, and the requirements that we have seen them have to comply with required the companies to pay for the installation or creation of those services themselves. No government funds or municipal bonds have been used to provide the support services.

Chairman GIBBONS. Sounds like Florida.

Mr. ARCHER. Sounds like many parts of the United States where you put in an industrial plant.

Mr. ALTSCHULER. Of course, another disadvantage is the relative weakness of those currencies of those countries. I don't know if you were here, but I mentioned a lot of our clients are in the position of importing from the United States raw materials that they use in production, or semi-manufactured materials they use in producing the products they are attempting to export to the United States.

With the situation of the peso being what it is, it is increasingly difficult for them to do that.

Mr. ARCHER. Thank you very much.

Chairman GIBBONS. Thank you very much, gentlemen.

Mr. ALTSCHULER. Thank you.

Chairman GIBBONS. We may harass you a little, but we are just trying to find out the answers to these questions. And we have to pick on you, pick on sharp minds like yours.

Mr. ALTSCHULER. Thank you.

Chairman GIBBONS. In some place, we may find the kernal we are looking for.

The Florists' Transworld Delivery Association, Mr. Donald Flowers and Gordon Smith.

As I recall, you are from Maryland, Mr. Flowers.

STATEMENT OF DONALD FLOWERS, PAST PRESIDENT, FLORISTS' TRANSWORLD DELIVERY ASSOCIATION, ACCOMPANIED BY GORDON SMITH, COUNSEL

Mr. FLOWERS. Yes, sir.

Chairman GIBBONS. You see, I still can remember things.

Mr. Flowers, tell us what the florists' have on their mind.

Mr. FLOWERS. Mr. Chairman and Members of the committee——

Chairman GIBBONS. I am not the first one to make a pun out of that, am I?

Mr. FLOWERS. They have been doing that for years.

Mr. Chairman, Members of the committee, I am Don Flowers. I am a retail florist in Randallstown, Md., and a grower of pot plants near Fort Myers, Fla.

Chairman GIBBONS. I didn't know you were from Florida, too.

Mr. FLOWERS. That is where I am headed.

Chairman GIBBONS. Hope you didn't get frozen out the other night.

Mr. FLOWERS. We expected to be, but we didn't.

Chairman GIBBONS. If you have much stock left, you ought to have a lot of market down there because the good Lord wiped out everybody on Christmas morning.

Mr. FLOWERS. I am appearing today on behalf of Florists' Transworld Delivery Association of Southfield, Mich. With me is Gordon Smith of Hill and Knowlton, our representative in Washington.

FTD is a member-owned cooperative made up of more than 20,000 independent retail florists in the United States, Canada, Latin American, and certain Far Eastern nations, including Japan. Nearly 19,000 or our members are located in some 8,300 U.S. towns and cities. They serve an additional 10,850 cities and towns where we do not have member florists.

FTD supports the renewal of the program known as the Generalized System of Preferences under which certain products of developing nations are admitted into the United States on a duty-free basis.

FTD adheres to a policy of its board of directors, first announced in November 1973, which states that all possible sources of supply should be kept open in order to achieve an adequate supply of consistently high quality perishable stock at reasonable prices, a policy which we believe is in the best interests of the industry and the consumer.

We also support in general the idea that assistance should be given to help developing countries pay their way in the world through the temporary suspension of U.S. tariffs on designated products including cut flowers and plants. We have testified to this effect several times in the past. I also want to note that my testimony refers specifically to TSUS or TSUSA item 192.20, cut flowers, fresh; bouquets, wreaths, sprays, or similar articles made from such flowers or other fresh plant parts; cut orchids, fresh. Cut flowers and plants, by the way, are among the commodities designated for duty-free treatment under the Caribbean Basin initiative, a program which FTD supports.

One of the arguments presented to the U.S. Trade Representative by opponents at hearings in 1978 was that duty-free treatment

should be denied because the duty offers important, though minimal, protection while posing no significant barrier to trade with the developing nations. In FTD, we agree that developing nations would probably be able to export cut flowers to the United States even if the duty remained, but we question whether this rather specialized form of protectionism will benefit consumers in the Unites States.

We still think the relatively small increase in imports that may result from duty-free treatment of cut flowers, cut flower exports from developing countries, has a marginal effect on the industry in this country. Denying such treatment would have a negative impact on the retail sector of the industry by reducing the availability of the more exotic and unusual flowers and plants that are available for the most part through imports. Orchids—many not grown in the United States—are an example.

As we have noted on many occasions, the emphasis of the domestic industry on production of the so-called major crops has resulted in reduced availability of important miscellaneous crops needed for variety.

Lastly, there is a definite lack of solid statistical data on which to base denial of GSP treatment to U.S. imports of cut flowers from developing countries. We believe this lack of data to suggest any injury to the domestic industry is further reason to continue duty-free imports of our products from developing nations.

To comment on the more general points, the current competitive need formula set at 50 percent might be changed to a sliding scale basis according to export levels of the developing countries pegged to specific products, and we feel that a multiyear extension would be justified. But we remain convinced that GSP should continue to exist for the benefit of the poorest countries who otherwise may not be able to compete successfully against well-developed competitors in the world market.

Thank you for your consideration of our views, and we will be glad to try to answer any questions.

[The statement of Mr. Flowers follows:]

STATEMENT OF DONALD FLOWERS, PAST PRESIDENT, FLORISTS' TRANSWORLD DELIVERY ASSOCIATION

SUMMARY

Mr. Chairman and Members of the Committee: My name is Don Flowers. I am a retail florist in Randallstown, Maryland, and a grower of pot plants near Fort Myers, Florida. I appear today on behalf of Florists' Transworld Delivery Association, Southfield, Michigan. With me is Gordon Smith of Hill and Knowlton, Inc., our representative in Washington.

FTD is a member-owned cooperative made up of more than 20,000 independent retail florists in the United States, Canada, Latin America, and certain far eastern nations, including Japan. Nearly 19,000 of our members are located in some 8,300 U.S. towns and cities. They serve an additional 10,850 U.S. towns where we do not have member florists.

FTD supports the renewal of the program known as the Generalized System of Preferences under which certain products of developing nations are admitted into the U.S. on a duty free basis.

FTD adheres to a policy of its Board of Directors, first announced in November, 1973, which states that all possible sources of supply should be kept open in order to achieve an adequate supply of consistently high quality perishable stock at reasonable prices, a policy which we believe is in the best interests of the industry and the consumer. We also support in general the idea that assistance should be given to

help developing countries pay their way in the world through the temporary suspension of U.S. tariffs on designated products, including cut flowers and plants. We have testified to this effect several times in the past. I also want to note that my testimony refers specifically to TSUS or TSUSA Ite 192.20, cut flowers, fresh; bouquets, wreaths, sprays or similar articles made from such flowers or other fresh plant parts; cut orchids, fresh. Cut flowers and plants, by the way, are among the commodities designated for duty free treatment under the Caribbean Basin Initiative, a program which FTD supports.

One of the arguments presented to the U.S. Trade Representative at hearings in 1978 was that duty free treatment should be denied because the duty offers important, though minimal, protection while posing no significant barrier to trade with the developing nations. In FTD, we agree that developing nations would probably be able to export cut flowers to the U.S. even if the duty remained, but we question whether this rather specialized form of protectionism will benefit consumers in the U.S.

We still think that the relatively small increase in imports that may result from duty free treatment of cut flower exports from developing countries has a marginal effect on the industry in this country. Denying such special treatment would, on the other hand, have a negative impact on the retail sector of the industry by reducing the availability of the more exotic and unusual flower and plants that are available for the most part through imports. Orchids, many of them not grown in the U.S., are an example. As we have noted on many occasions, the emphasis of the domestic industry on production of the so-called "major crops" has resulted in reduced availability of important miscellaneous crops needed by the retailer for variety.

Lastly, there is a definite lack of solid statistical data on which to base denial of GSP treatment to U.S. imports of cut flowers from developing countries. We believe this lack of data to suggest any injury to the domestic industry is further reason to continue duty free imports of our products from developing nations.

To comment on more general points, the current "competitive need" formula, set a 50 percent, might be changed to a sliding scale basic according to export levels of the developing countries pegged to specific products. And we feel that a multiyear extension would be justified. But we remain convinced that GSP should continue to exist for the benefit of the poorest countries, who otherwise may not be able to compete successfully against well developed competitors in the world market.

Thank you for your consideration of our views. We will be glad to try to answer any questions.

STATEMENT

Mr. Chairman and Members of the Committee: My name is Don Flowers. I am a retail florist in Randallstown, Maryland, and a grower of ornamental pot plants near Fort Myers, Florida. I am appearing today on behalf of Florists' Transworld Delivery Association of Southfield, Michigan. With me is Gordon Smith of Hill and Knowlton, Inc.,[1] our representative in Washington. FTD supports the renewal of the program known as the Generalized System of Preferences under which certain products of developing nations are admitted into the U.S. on a duty free basis.

I am a former president of FTD, which is a member-owned cooperative made up of more than 20,000 independent retail florists in the United States, Canada, Latin America, and certain far eastern nations, including Japan. Nearly 19,000 of our members are in the U.S., located in 8,272 towns and cities, and they serve an additional 10,861 cities and towns where we do not have member florists.

FTD serves as a clearinghouse for the exchange of intercity flower orders between its members, as well as providing marketing, research, education and membership services of a comprehensive nature. The intercity florist business, or "flowers by wire" as it has been generically known since FTD was founded nearly 75 years ago (in 1910), is a substantial part of an FTD member's business, ranging on the average from 15 to 17 percent of a member's annual gross volume. In the fiscal year ended June 30, 1982, FTD "cleared" more than 18.5 million member orders with a value of more than $415.7 million, a record high for FTD. This volume figure is the equivalent to more than 50,000 orders a day, ever day of the year.

Through its national advertising and promotional programs, FTD has been the major force in the industry for promoting consumer use of cut flowers, as very considerable benefit to the grower and wholesaler segments of the industry as well as to retailers. FTD has worked at the national level to develop information service

[1] Mr. Smith can be reached at 638-2800 in Washington, D.C.

programs on behalf of itself and the industry, such as crop reporting [2] and market news reporting. These programs are necessary to an economic understanding of commercial floriculture

FTD position on cut flower imports

On a smaller scale, the question of duty-free imports from developing nations partakes of the larger issue of import restrictions which has been the subject of "escape clause" and other administrative proceedings.

In any event, FTD adheres to a policy of its Board of Directors, announced in November, 1973, and reaffirmed in 1975, 1977, 1978, 1980, and 1983 which states that all possible sources of supply should be kept open in order to achieve an adequate supply of consistently high quality perishable stock at reasonable prices, a policy which we believe is in the best interests of the industry and the consumer. As we understand it, the question of admitting imports of cut flowers and plants from developing nations on a duty free basis arises out of special policy considerations of the U.S. Government designed to help the so-called developing countries get on their feet economically through their own efforts. The reasoning seems to be that assistance should be given to help such countries pay their way in the world through the temporary elimination of U.S. tariffs on designated products, including cut flowers and plants.

Renewal of GSP for developing countries

It is my understanding that the committee is holding these hearings in response to Administration proposals, made by letter, to renew the program for the General System of Preferences expiring in January, 1985, and that no specific bill has been introduced as yet. I will therefore attempt to set forth our views and respond to the particular points made by Chairman Gibbons in the notice of this hearing. My testimony refers specifically to TSUS or TSUSA Item 192.20, cut flowers, fresh; bouquets, wreaths, sprays or similar articles made from such flowers or other fresh plant parts; cut orchids, fresh. Cut flowers and plants, by the way, are among the commodities designated for duty free treatment under the recently approved Caribbean Basin Initiative, a program which FTD supports.

FTD Position on GSP

FTD believes that this U.S. Government policy is in keeping with the intent of its own policy of maintaining an adequate supply of quality products in increased variety for sale to consumers at reasonable prices. In short, FTD believes that the consumer and the retail florist industry would be served by extending duty free treatment to the potentially wide range of products from developing nations. In reaching this conclusion, we are especially aware of the fact that the consumer market on which we are so dependent in marketing a non-essential agricultural product has become increasingly pinched by inflation, energy shortages, and other economic problems. Therefore, a national policy which serves the best interests of the consumers and users of our products would also seem to serve our industry.

Probable economic impact

It appears that very little statistical information exists as to the "probable economic effects" on U.S. industry and the consumer of eliminating U.S. import duties under the Generalized System of Preferences. In 1979 we reviewed submissions of various industry organizations and operators at hearings conducted by the Trade Policy Staff Committee of the Special Representative for Trade Negotiations and the U.S. International Trade Commission. Virtually all of them opposed the grant of GSP treatment to cut flowers and cited a variety of generalized fears of import competition to the production segment of our industry.

We still think, to the contrary, that the relatively small increase in imports that may result from duty free treatment of cut flower exports of developing countries would have a marginal effect on the industry in this country. Denying such special treatment would, on the other hand, have a negative impact on the retail sector of the industry by reducing the availability of the more exotic and unusual flowers and plants that are available for the most part through imports. Orchids, many of them not grown in the U.S., are an example. As we have noted on many occasions, the emphasis of the domestic industry on production of the so-called "major crops" has resulted in reduced availability of important miscellaneous crops needed by the retailer for variety.

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[2] Crop reporting for florist crops was discontinued in 1981 by the Crop Reporting Board, U.S. Department of Agriculture, as an "economy measure," substantially impairing our industry's statistical data base.

One of the arguments presented to the USTR in 1979 was that duty free treatment should be denied in this instance because the 10 percent duty offers important, through minimal protection while posing no significant barrier to trade with the developing nations. In FTD, we think that developing nations would be able to export cut flowers to the U.S. even if the duty remains unchanged, but we sincerely question whether this rather specialized form of protectionism will benefit consumers in the U.S.

The situation remains basically what it was four years ago when we testified that the industry is faced with rising consumer demand at the same time that domestic production is on the decline for a wide variety on non-import related reasons. This decline is occurring in part for reasons that have to do with the availability of energy, the cost of energy, and such factors as the real estate development of land formerly used for florist crop production. All of these considerations are threats of a very real kind to domestic crop production.

Conclusion

A review of testimony submitted to the Office of the Special Representative for Trade Negotiations September 1978 indicates several deficiencies in the information submitted.

1. There is a definite lack of solid statistical data on which to base denial of GSP treatment to U.S. imports of cut flowers from developing countries. The limited amount of statistical information made available by witnesses opposing the petitions deal more with the import issue generally than with clarification of the narrower question now before the committee. Such statistical data therefore makes forecasting of export trends for developing countries a shaky proposition at this time.

2. Perhaps of necessity, there has been considerable over-use of generic terms such as "cut flowers." It would be more useful to specify the particular flowers being talked about and to make some effort to relate their availability to consumer satisfaction. If maintenance of the present rate of duty on imports from developing countries would reduce the selection and variety available in the U.S., would this injure the consumer? Imports of certain kinds of orchids not produced in the U.S. are an example of this situation.

3. Much of the opposition to extending duty free treatment to these imports is stated in terms of "impending disaster" and other oversimplified descriptions of supposed economic injury. This terminology can be very misleading because it does not provide any useful information.

4. Fundamental changes in channels of distribution have occurred in this industry, resulting in the marketing of nearly 50 percent of florist industry products (by value) through mass market outlets at the present time. The kinds and varieties of cut flowers supplied by developing countries are less likely to be sold to consumers through the supermarkets and more likely to be needed by retail florists to enhance consumer satisfaction. There is, if anything, a specific need by our members for imports from developing countries, and therefore there is more reason to permit GSP treatment of these imports.

To date, FTD has seen no reason to change the position it presented in a brief statement to the USTR hearing in September, 1978. We said that we would have no objection to granting of duty free treatment to cut flower imports from developing countries. We do not believe that the economic impact is sufficient to warrant denial of the petitions for duty free treatment of these imports.

Although additional detailed information concerning GSP treatment of cut flowers and plants is available, it would probably serve no immediate purpose here. At the same time, a "supplemental statement" we made to the U.S. International Trade Commission hearing on the economic impact of GSP in July, 1979, may be of interest, and it is appended to this statement.

Administration proposals for GSP renewal

In general, FTD commends and supports the Administration in its apparent intention to renew the GSP program, which we think recognizes the inherent value of this program to our so-called "third world" trading partners and to ourselves. We believe that the criteria of the present statute should be preserved, including the competitive need test which assures that exporting countries accounting for 50 percent or more of U.S. imports of a given commodity or product do not qualify for GSP treatment.

FTD is not qualified to comment in any detail on the changes of emphsis proposed by the Administration. We believe, however, that GSP by definition should be limited to developing countries selected according to criteria contained in the statute and that when development in any product line reaches a pre-designed level, ordinary duties should be assessed on the same footing as with developed countries. GSP, by

its nature, is intended to be a special benefit conferrable under specific circumstances upon specifically designated countries.

The products of the commercial floriculture industry in the U.S. have not yet become export commodities on a significant basis. Only now is U.S. export trade developing in some kinds of pot plants and ornamentals. Certainly the opportunity to develop and export market should be open to the domestic industry in the U.S., and in fairness, it would seem that "adequate market access" for U.S. products in GSP-beneficiary countries should be a factor in determining the degree of GSP treatment afforded such countries. At the same time, FTD would oppose any abuse of this kind of leverage if its real intent were to restrict GSP imports.

We appreciate the opportunity to testify before this committee on renewal of the GSP program, and will be pleased to try to answer any question you may have.

Attachment: Supplemental Statement to the USITC, July 13, 1983.

SUPPLEMENTAL STATEMENT OF FLORISTS' TRANSWORLD DELIVERY ASSOCIATION

This statement is submitted to the International Trade Commission as a supplement to testimony presented by Salvy V. Guzzo, president, Florists' Transworld Delivery, in a hearing held by the USITC on June 26, 1979. This hearing was held at the request of the Office of the Social Representative for Trade Negotiations in order to help determine "probable economic effects" on the U.S. industry and on consumers of allowing imports of "cut flowers" and "cut orchids" from certain developing countries to enter the U.S. duty free under the Generalized System of Preferences.

We reiterated in that statement the policy of Florists' Transworld Delivery (FTD) which states that all possible sources of supply should be kept open in order to achieve an adequate supply of consistently high quality perishable stock at reasonable prices, a policy which we believe is in the best interests of our industry and the consumer.

Comments on testimony of witnesses opposing GSP eligibility

We have several comments on testimony of witnesses opposing duty free treatment of imports of "cut flowers" and "cut orchids" from developing countries.

The term "cut flowers" is really a generic description. The same is true of "cut orchids." Use of this terminology by almost all parties concerned, including the Office of the Special Trade Representative (OSTR), has the effect of biasing the discussion. In particular, opponents of GSP treatment for these imports do not make certain important distinctions:

(1) Imports from developing countries such as the petitioners will generally be the more exotic and unusual kinds and varieties of flowers, or those not produced in suitable quantity or quality in the U.S. They are therefore generally noncompetitive with domestically grown flowers. We have in mind gerberas, a daisy-type flower being produced in Holland (a GSP-eligible country) but for which there is a potential for production in developing countries; miniature carnations; certain varieties of sweetheart roses; and of course orchids.

Inquiry regarding the varieties of orchids exported from Singapore, for instance, reveals five kinds not commercially grown domestically. These are varieties known as Arander, Arachris, Onicidium, Aranthera, and Aeirdachnis. The first three constitute 90 percent of the orchids exported from Singapore, according to the Embassy of the Republic of Singapore. But this brief list by no means exhausts the possibilities for consumer-pleasing, specific flowers otherwise unavailable to U.S. retailers and consumers.

(2) In view of the facts cited above, it is apparent that many of the floral products likely to be available from developing nations are not competitive with major production of the domestic industry.

(3) Further consideration should be given by the ITC to the nonresponsive nature of testimony submitted by opponents. The occasion of this ITC hearing was used to submit testimony on imports generally rather than those exclusively from developing countries. Little if any attention was devoted to the specified purpose of the hearing. By the terms of the request for this hearing by OSTR, the purpose is to determine "probable economic effects" on the U.S. industry producing a like or competitive product and on consumers.

Witnesses opposing GSP treatment adduced little if any testimony that would shed light on these points, describing instead the domestic producers view of a general import situation. The testimony may be faulted for inexact comparisons and questionable statistical practices. We believe most of the testimony by the domestic industry must be dismissed by the Commission in reaching its findings simply because it is irrelevant.

(4) The economic effect of granting duty free treatment to floral products from developing countries is clearly minimal. At this time, no accurate statistics or even solid est.nates exist as to the extent of such imports in the future, and in most cases we are talking about a potential capability rather than a current reality. Beyond that, many of these imports are non-competitive with domestic production and the question of economic impact itself could be decided in favor of the developing countries on that ground alone.

(5) During our testimony, Commissioner Parker asked whether (as a retail organization) we can pinpoint economic benefit to the consumer should GSP treatment be extended to these imports. It is not possible to do so in dollars and cents terms simply because the relatively low current duty (10 percent ad valorem) on a low volume of imports cannot be traced in a specific way through the transactions involved to the consumer level.

However, we testified that denying duty-free treatment to these imports will have a negative impact on the retail sector of the industry through diminished availability of desirable products at reasonable prices. Based on our experience, we believe that prices to the consumer will be less than would be the case if the products were scarcer and harder to obtain because of the refusal of duty-free treatment in keeping with the policy of the U.S. Government toward trade with developing countries. This aspect of the matter is very much in keeping with FTD policy relating to "adequate supplies" of floral products at reasonable prices.

Summary

In summary, we believe that the testimony before this hearing, insofar as it deals with the general issue of imported floral products, is not relevant to the decision that this Commission is called upon to make.

We believe much of the testimony given in terms of "cut flowers" and similar descriptions is too vague to provide a proper basis for a decision and that the Commission must attempt to measure economic impact on the domestic industry and on consumers in terms of the specific floral products likely to be exported to the U.S. from developing countries. In any event, be believe that the volume of such imports for the foreseeable future will be so low that no adverse impact would occur.

Finally, we believe that granting of duty free status to floral products from developing countries, given their rather specialized character in terms of varieties, would benefit the consumer both through greater availability of desirable products and through a restraining influence on prices at the retail level.

We are grateful to the Commission for the opportunity to submit this post-hearing brief.

Chairman GIBBONS. Thank you.

Let me ask you—I don't know, and perhaps you don't have it right at the tip of your fingers—what is the duty on non-GSP cut flowers?

Mr. FLOWERS. Eight percent.

Chairman GIBBONS. Eight percent?

Mr. FLOWERS. Right.

Chairman GIBBONS. Mr. Jenkins.

Mr. JENKINS. No questions, Mr. Chairman.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. No questions.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. I have no questions, Mr. Chairman.

Chairman GIBBONS. We appreciate your statement very much. Good luck on your Florida operations.

Mr. FLOWERS. Thank you very much, sir.

Chairman GIBBONS. That concludes this hearing on the GSP. The record will stay open until February 24 for additional views and to answer questions that have been submitted in writing.

A lot of the questions are out for the agencies, and I hope they get their views in.

I thank all of you for coming.

[Whereupon, at 11:02 a.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

SUMMARY

1. Farm Bureau opposes GSP for agricultural products.

2. Farm Bureau will be supporting legislation, which will exclude agricultural commodities and products from GSP eligibility. We are concerned with the escalation of GSP status for agricultural products.

3. Farm Bureau believes the legislative intent of the Trade Act of 1974 when enacted was to focus tariff preferences on manufactured goods.

4. Most developing countries have not liberalized their trade restrictions as they have become more affluent. Farm Bureau believes that counter concessions should be received from trade concessions.

5. Many of the countries enjoying GSP status use export subsidies to capture markets from U.S. farmers.

6. There has been flight of capital to some countries enjoying GSP status resulting in loss of U.S. jobs and U.S. farm income.

7. Export agriculture in most developing countries has sufficient advantage in technology, government support and labor cost to compete effectively in the U.S. without GSP benefits.

8. Agricultural products, especially perishable ones, are more import sensitive than textiles, footwear, watches and certain electronic and steel articles that have been excluded from GSP.

STATEMENT

Farm Bureau appreciates this opportunity to comment on the Administration's proposal to renew GSP legislation.

At Farm Bureau's Annual Convention earlier this month, the following policy with respect to GSP was ratified by the voting delegates:

"The United States should approve most-favored-nation (MFN) tariff treatment for any countries that agree to reciprocate and conduct themselves in accordance with the General Agreement on Tariffs and Trade.

"We oppose the Generalized System of Preferences (GSP) for agricultural products, whereby developing countries are granted duty-free entry on certain products, as this runs counter to the MFN principles."

Mr. Chairman, based on this policy guidance, Farm Bureau will be supporting legislation which will exclude agricultural commodities and products from eligibility for preferential duty-free status under GSP.

The Generalized System of Preferences which grants duty-free treatment to developing countries was opposed by the Farm Bureau prior to enactment of the Trade Act of 1974 even though our organization supported the other provisions.

Our general opposition to the granting of duty-free treatment of imported articles, products and commodities continues. We believe that tariff concessions should be granted only in the negotiation process where concessions are received as well as granted. Farm Bureau believes that the idea of a Generalized System of Preferences is inconsistent with the most-favored-nation principle, the foundation of the General Agreement on Tariffs and Trade (GATT).

We believe that the legislative intent when the Trade Act of 1974 was enacted was to focus tariff preferences on manufactured rather than agricultural products and that developing countries did not generally need assistance in the marketing of agricultural commodities in the United States. The agricultural commodities and products produced in developing countries for export to the United States generally come from farms that utilize modern production technology, are highly competitive and often financed by U.S. capital. Consequently, Farm Bureau believes that they should be accorded only the tariff treatment granted most-favored nations. Duty-free preferences create serious problems for domestic agricultural producers.

Farm Bureau finds that the benefits that could accrue from the MFN principle are diminished when special benefits permit duty-free entry of agricultural commodities from many developing countries without counter concessions. Most of the developing countries have not liberalized their trade restrictions as their economies have become more affluent.

Many of the developing countries that enjoy GSP treatment on agricultural products entered into the United States have recently erected substantial tariff and other trade impediments against United States' agricultural imports. Included are

such well-known trading partners as Taiwan, Thailand, Korea, Malaysia, the Philippines, Nigeria, Egypt, the Dominican Republic, Mexico, Brazil, and Argentina.

Farm Bureau is concerned regarding the escalation in the number of agricultural products for which GSP status has been granted through the years. We believe that this is a serious departure from Congressional intent.

Farm Bureau, other farm organizations and commodity groups, along with the U.S. Congress, are frustrated by our trading partners' continued use of export subsidies. Many of the developing countries that enjoy GSP benefits on agricultural products use export subsidies to "capture" markets away from U.S. farmers.

We understand the Administration proposes that the renewed GSP Program be structured to limit GSP treatment of highly competitive products and to assure U.S. exports greater market access in GSP beneficiary countries. Although we agree that such factors should be taken into account when the GSP legislation is renewed, we also believe more firmly that agricultural production in developing countries for export to the United States has sufficient advantage in technology, government support and labor cost, to enable them to effectively compete in the United States without the special benefits currently accorded under GSP.

To grant additional benefits beyond that accorded countries receiving MFN treatment is unnecessary for these countries to be competitive in the U.S. market. Furthermore, it results in flight of U.S. capital to such areas for the production of agricultural items for importation into the United States and a consequent loss of jobs by U.S. workers and lost income for U.S. growers.

We believe that agricultural products, especially perishable ones, are more sensitive than textiles, footwear, watches and certain electronic and steel articles which have been excluded from duty-free treatment by Section 503(c)(1) of the Trade Act.

Therefore, Farm Bureau will support legislative reforms which would exclude agricultural products from the GSP Program.

Farm Bureau will appreciate the consideration of our view as GSP renewal legislation is being considered.

AMERICAN FIBER, TEXTILE, APPAREL COALITION,
Washington, D.C., February 3, 1984.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, House Ways and Means Committee, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The American Fiber, Textile and Apparel Coalition (AFTAC) appreciates the opportunity to comment on possible renewal of the Generalized System of Preferences. AFTAC is a national coalition of labor and management organizations in the textile and apparel industry in the United States. The 21 member organizations of AFTAC are located throughout the nation and produce the vast majority of textile and apparel items made in this country.

The Trade Act of 1974 exempts from GSP coverage "textile and apparel articles which are subject to textile agreements." This language has been interpreted on occasion to mean articles which are the subject of restraint agreements, either under specific ceilings or under consultation mechanisms. This has resulted in efforts to make products eligible for GSP which are clearly textile in nature and by definition should be exempt. In recent years these articles have included hand woven knotted or knitted carpet, camping tents, man-made fiber flatgoods, coated fabrics, and others. This had led to lengthy administrative proceedings and on occasion to the filing of court cases.

AFTAC strongly believes by any reasonable standard of interpretation, that the Multifiber Arrangement is a textile agreement and that the phrase "subject to textile agreements" is intended to encompass all textile and apparel items covered by the Multifiber Arrangement or a successor agreement regardless of whether they are covered by specific restraints.

AFTAC therefore proposes for the Subcommittee's consideration the following amendment which would remove this ambiguity from the law:

Subsection (c)(1)(A) of Section 503 of the Trade Act of 1974 (19 U.S.C. 2463) is amended to read as follows:

"A. Textile and apparel articles which are or have been subject to one or more textile agreements, including the 'Arrangement Regarding International Trade in Textiles,' whether or not subject to specific quantitative limits."

Once again, AFTAC appreciates the opportunity to comment and requests that this letter be made a part of the hearing record.

Sincerely,

W. RAY SHOCKLEY.

STATEMENT OF THE AMERICAN IRON & STEEL INSTITUTE

The American Iron and Steel Institute is pleased to present the following comments for inclusion in the record of the Subcommittee on International Trade of the Senate Committee on Finance hearings on possible renewal of the Generalized System of Preferences (GSP). The American Iron and Steel Institute is the principal trade association of the U.S. steel industry. Its membership includes 58 domestic steel companies accounting for about 87 percent of the raw steel produced in the United States.

The AISI supports the renewal of GSP authority as long as such renewal provides for the statutory exclusion of all steel products. When first instituted as a result of the Trade Act of 1974, the GSP program interpreted the intent of Congress by excluding steel mill products from the list of eligible articles under the program. At the present time, when the domestic steel industry is confronted by near record import market penetration and continued serious damage from import competition (much of it unfair), this exclusion must not only be continued, but further strengthened and clarified.

The current statutory exclusion, contained in Section 503(c)(1) of the Trade Act of 1974, specifies that, "The President may not designate any article as an eligible article . . . if such article is within one of the following categories of import sensitive articles . . . (D) import sensitive steel articles." This language reflected the concerns of the Senate Finance Committee, as expressed to the Executive Branch, that steel and other import sensitive products should be excluded from the GSP. The products actually excluded as "import sensitive steel articles" have been steel mill products (AISI categories 1-37). The Administration's renewal proposal recommends no change in the list of statutory exclusions.

We believe that it is absolutely vital that steel mill products continue to be excluded from GSP eligibility, and the Administration has assured us that this will indeed be the case. But we would also point out that other iron and steel products from AISI product categories 38-59 have been included as eligible products, and many of these items (e.g., wire products and fabricated structurals) are only slightly advanced from the steel mill products which have been excluded from the program. Hence, the negative impact on the basic steel industry, which the government attempted to avoid (in response to Congressional concerns) by excluding steel mill products, has nevertheless occurred. The allowance of GSP imports from so-called LDCs of steel wire, industrial fasteners, fabricated structurals and other "downstream" steel products has had a negative impact on our customers and has therefore reduced the demand for the domestic steel mill products which our member companies produce.

The increasing threat of downstreaming (including downstream dumping), the advanced technological state of LDC steel facilities, and the continued import sensitivity of the entire steel industry are the three major reasons why the case for excluding from GSP all iron and steel imports is even stronger today than it was during the MTN. The AISI therefore urges that the exclusion pertaining to "import sensitive articles of steel" be amended to read: "all articles of steel." The import sensitivity of the steel industry should no longer be a matter of administrative discretion. In recognition of this fact, all iron and steel products as specified in AISI categories 1-59 should be excluded by statute as eligible articles under GSP when and if GSP is renewed.

The purpose of the GSP program was to give a unilateral trade concession to our LDC trading partners—in the form of duty elimination—in order to foster their economic development. The AISI supports this concept. However, as regards steelmaking in particular, "advanced developing" countries (ADCs) such as Brazil, South Korea and Taiwan cannot be considered to be in need of GSP preferences to enable them to compete in the U.S. market. The continued exclusion from GSP of steel products from these countries is not just a matter of the domestic industry's import sensitivity. It is also dictated by the fact that the installed steel capacity in these countries is in all cases technologically advanced and fully competitive with the steel industries of the developed world.

Indicative of the fact that such ADC steel producing countries are fully competitive in U.S. markets and not in need of any additional benefits is the fact that im-

ports from the three major steel exporting beneficiary countries—Brazil, South Korea and Taiwan—as a percentage of our market have increased an estimated 170 percent in the five years 1979-83. And U.S. imports from Mexico, another major ADC steel producer and GSP beneficiary, increased by nearly 480 percent from 1982 to 1983.

Moreover, in recent years the Commerce Department and U.S. International Trade Commission have found that Brazil, South Korea and Taiwan have all violated U.S. trade laws and injured domestic producers by selling steel products that were subsidized or traded at less than fair value. Those familiar with how developing country steel industries have evolved have not been surprised. Since government ownership, subsidization and direction of all LDC steel industries is the norm, real production costs are not necessarily reflected in export prices. Instead, the profit motive becomes secondary to other goals such as employment, balance of payments and foreign exchange generation.

As a result, there has been a legacy of unfairly traded steel products from so-called developing countries which has led us to conclude that it is neither appropriate nor necessary to give any developing country additional incentives to ship iron or steel products to the U.S. This is true not only for such ADCs as Brazil, South Korea and Taiwan, whose iron and steel industries can in no way be considered as still "developing", but also for countries such as Trinidad and Tobago, whose wire rod facility has duty-free treatment under the CBI despite being fully competitive. The Commerce Department, we might add, has already determined that steel products from this particular facility have been dumped and subsidized in the U.S. market. In addition, statistics show clearly that all LDC steel producers (not just the ADCs) can compete successfully in the U.S. market without special preferences. Steel imports from non-EC, Japanese and Canadian suppliers (primarily ADC imports) as a percent of apparent consumption have increased from 1.9 percent (1975-77) to 4.2 percent (1980-82) to an estimated 7.6 percent in 1983.

The AISI therefore has consistently supported the concept of GSP graduation for beneficiaries (and especially the "advanced developing" countries) in products and sectors (e.g., steel) where such countries are already fully competitive. In supporting the overall concept of graduation, we have also endorsed fully the idea that such countries must be encouraged to liberalize their own market access. The Administration proposal would draw a closer link between these two goals by giving increased weight to: (1) the development level of individual beneficiaries, and (2) the extent to which the beneficiary country has assured the United States that it will provide equitable and reasonable access to its markets and basic commodity resources.

Specifically the Administration proposal would exempt the least developed developing countries from any product-based competitive need test, while granting authority to subject advanced developing countries to lower product-based competitive need limits (i.e., 25 percent of total imports or $25 million worth of imports, down from 50 percent and an expected $58 million in 1984). It would also grant authority to waive product-based competitive need limits for any GSP beneficiary (whether least developed or advanced developing) if it is deemed to be in the national interest to do so. In making such a decision, the interagency GSP Subcommittee would presumably pay more attention than is presently the case to the degree of market access a beneficiary was providing to U.S. exports.

The Administration proposal raises the question whether an advanced developing country should continue to receive duty-free GSP preferences even if it is fully competitive in a given product category provided it agrees to liberalize access to its markets. While we strongly support government policies to reduce foreign trade barriers, we question the degree to which GSP should be used to accomplish this goal. In our view a beneficiary developing country (especially an advanced developing country) should be graduated as soon as it is fully competitive in a given product category.

With respect to the Admininstration's basic approach as outlined in the renewal proposal, we believe that in determining eligibility, factors such as: (1) the beneficiary country's competitiveness in a particular product or sector, and especially (2) the anticipated impact of GSP treatment on United States producers of like or competitive products should be more important than a beneficiary's overall level of development and openness of markets. One way to provide greater safeguards for import sensitive products would be to suspend from eligibility any article which is the subject of a preliminary antidumping (AD) or contervailing duty (CVD) finding, and to remove from eligibility any article which is the subject of an AD or CVD order. We therefore urge that such a provision be added to the Administration's proposal.

The American Iron and Steel Institute expresses its appreciation for this opportunity to give its views to the Subcommittee on International Trade of the Senate Committee on Finance on the possible renewal of GSP authority.

STATEMENT OF DR. PHILIP OPHER, EXECUTIVE VICE PRESIDENT, AMERICAN-ISRAEL CHAMBER OF COMMERCE AND INDUSTRY, INC.

INTRODUCTION

This statement is being submitted on behalf of the American-Israel Chamber of Commerce and Industry, Inc. in support of the legislation to renew the Generalized System of Preferences (GSP). The Chamber supports renewal of the GSP for Israel without restriction or exemption.

The Chamber is a United States nor political and non-sectarian trade association comprising hundreds of United States corporations. Our membership consists of some of the most important exporters of United States products to Israel, importers of Israeli products into the United States, and American investors in Israel. The organization is the recipient of the "E" Award of the President of the United States "For an Outstanding Contribution to the Export Expansion Program of the United States of America."

As a trade association concerned with trade between Israel and the United States, we have polled a number of our member firms as well as other firms doing business with Israel on the matter of extending or renewing the GSP on Israeli products. We found the American business community doing business with Israel supports the extension and renewal of the GSP on Israeli products without exemptions or restrictions. Many of the comments of those seeking to eliminate duties on Israeli products entering the United States may be found in our testimony before the Senate Finance Committee on February 6, 1984 relating to the United States-Israel Free Trade Area.

I. The generalized system of preferences should be renewed by Congress without limitation regarding Israel

We believe that Congress should give the legislation renewing GSP prompt and affirmative action for the following reasons:

1. The GSP offsets disadvantages which Israel experiences as a result of its exclusion from certain world markets.

Israeli exports are disadvantaged in some of the world's markets because of factors not related to the quality and efficiency of its products. In the event that the GSP will be extended, these disadvantages will continue to be offset, at least in part. Israel currently has one of the highest per capita debts of any country. This is primarily the result of its expenditures on defense. To service and retire its debt, Israel must export a great part of its production. Because of the political situation in the Middle East, Israel's trade with its neighbors is negligible. Together with its extraordinary military burden, Israel has to transport its exports thousands of miles.

Much of the exports from the world's developing countries rely on low cost labor. Israel is an exception to this rule. The quality of the Israeli worker, coupled with the fact that Israel is a deeply rooted democracy with a highly organized labor movement, results in Israeli products being known for their technological advancement, sophistication, and style, rather than low price. Consequently, Israeli products are often uncompetitive in countries imposing high or restrictive tariffs.

The GSP beneficiary status of certain Israeli products have helped to offset these deficiencies. Moreover, there are two further aspects of current Israeli trade policy which may ultimately aid Israeli exports. The first is the enactment of the European-Israeli Free Trade Area in which Israeli exports to the European Economic Community are currently entered free of duty. The second is the current negotiations to implement a similar agreement between the United States and Israel. It is, however, the continuation of the GSP, and its expansion for Israeli products, that is of immediate concern to our members importing from Israel. We see a Free Trade Area with Israel as a next stage and natural outgrowth of a renewed GSP.

At present, approximately 90 percent of Israeli exports to the United States are entered free of duty. Over one-third of those exports are entered under the Generalized System of Preferences. The GSP, while beneficial to American-Israel trade, contains certain drawbacks to Israel, which should be eliminated in the new legislation pending in Congress, and which would, in any event, be eliminated by the establishment of a Free Trade Area with Israel.

2. The Generalized System of Preferences should be renewed with changes improving long-term planning in international trade without diminution of benefits to Israel.

The first change which we recommend should be incorporated in the bill is a provision which would improve long-term planning in regard to the status of Israel's (and other beneficiary countries') future exports to the United States.

Under the present GSP system, a country, product, or "country-product pair" may be "graduated," that is, eliminated from GSP benefits if certain limits are reached. In 1983, for example, if a country accounted for more than $57.9 million of the imports of an article to the United States or over 50 percent of the value of total imports of that article, then its GSP benefits for that product would be eliminated.

The 50 percent maximum figure should be eliminated entirely as a determinant of GSP beneficiary status. Once eligibility is established, any country should be allowed to account for more than 50 percent of imports of one product into the United States. The 50 percent limit unnecessarily creates tensions among developing countries while rendering no improvement in cost, efficiency, quality, or protection to United States industry or labor. The elimination of the 50 percent limit would enable the world market to make rational decisions on production, capacity and the like.

Second, in the case of Israel, no consideration should be given to its per capita GNP for eligibility for GSP beneficiary status. As we noted above, Israel has one of the world's highest per capita debts, a result of its defense burden. Moreover, per capita GNP does not truly reflect Israel's non-defense per capita national income.

II. Passage of the generalized system of preferences renewal legislation, as modified, would benefit the United States

The renewal of the Generalized System of Preferences, especially in the case of Israel, would result in the following benefits to the United States.

First, the Generalized System of Preferences is a tested system. The Generalized System of Preferences has been in effect in the United States for approximately ten years. Similar systems have been in effect in other developed countries for even a longer period. The Generalized System of Preferences provides a reliable, efficient and non-injurious framework for international trade, while at the same time assisting development in the developing world.

Second, elimination of the Generalized System of Preferences will not aid United States industry. As the International Trade Commission found (U.S.I.T.C. Pub. 1384), "graduation" of a "country-product" pair from GSP does not aid the United States industry manufacturing that product. Rather, in almost all cases, the benefits are transferred to industries in one of the developed countries in Europe, or Japan. The Chairman of the International Trade Commission repeated this finding in his testimony on January 27, 1984 before this Committee.

Third, the maintenance of GSP status for Israeli products will generate additional funds for Israel from its increased exports to the United States. Traditionally, the Israeli economy prefers United States-made equipment and products. Therefore, in all probability, the funds generated from increased Israeli exports under GSP will be utilized for purchases from, and payments to, the United States.

III. The United States and Israel have common commercial interests which would benefit from the extension of the GSP for Israeli products

The United States and Israel have common economic and commercial interests which would benefit from the renewal of the Generalized System of Preferences statute with reference to Israel.

First, both the United States and Israel are heavy investors in research and development and exporters of know-how. That means that the GSP status for Israeli products will not result in the drain of the United States' intellectual property to Israel's advantage. A more likely scenario is that both countries will cooperate in the joint development of new technologies whenever mutually desirable.

Moreover, the United States and Israel have a commonality of interests in protecting intellectual property. Both countries are alert to the fact that their exports of technological products to third country markets contain billions of dollars worth of intellectual property. Both countries are therefore extremely aware that these rights must be protected against theft, counterfeiting and infringement. The enforcement of intellectual property rights is vigorous in both countries because the protection of these rights ensures the future growth industries in both countries.

The second mutual benefit to both countries derives from the fact that both countries have active and independent labor movements linked to, and nurtured by, democratic institutions. American workers are justifiably wary of efforts to liberalize trade when it is at the expense of American jobs and American wages earned

through a vibrant and democratic labor movement. In the case of Israel, its labor movement is among the most active in the world. The wages, benefits and social protection it has achieved can be claimed by very few nations in the world. Therefore, the continuation of GSP status for Israeli products will benefit the workers in both countries.

CONCLUSION

The advantages of GSP status for Israeli products are numerous. In addition to deepening an important commercial relationship, the continuation of the Generalized System of Preferences for Israeli products would tend to lower prices and create jobs and new opportunities in both the United States and Israel.

Accordingly, we request that Congress act favorably on this proposal as amended with the modifications we have proposed.

STATEMENT OF THE ANDEAN GROUP

The member countries of the Andean Group have on previous occasions stated their criteria on the importance of the United States Generalized System of Preferences, (G.S.P.), that took effect as of January 1, 1976, based on the Trade Act of 1974 and whose expiration will be in January of 1985.

The member countries of the Andean Group, within the framework of the Memorandum of Understanding signed in November of 1979 with the United States Government, wish to prevent their points of view on the United States Generalized System of Preferences.

Within the context of an open international trade policy, the Generalized System of Preferences has been acknowledged by all the beneficiary countries as a stimulating instrument for increasing the exports from less developed countries and at the same time as a useful mechanism which helps create a greater commercial exchange with developed countries. This mechanism permits the duty advantages to play a balancing role in the bilateral commercial relations.

In the context of the present economic situation at the international level, the trade relationship between the developing countries and the industrialized countries are of substantial disadvantage to the former. In fact the prices of the main export products of the developing countries, particularly raw materials, maintain the levels which they had two decades ago. This contrasts with the increasing prices of intermediate products and inputs necessary for the development of the developing countries. Because of this, the terms of trade of developing countries continue to deteriorate.

On the other hand, important commodities from the Andean Group do not obtain profitable prices in the international market mainly because of the unfair competition offered by the highly subsidized production and exports of similar products by industrialized countries. Faced with this reality, the Andean Group has resolved to stimulate the establishment of small but efficient industries to compensate for these disadvantages.

With this purpose, each of the Andean countries has introduced a group of measures and policies backing the private sector. Special attention has been given to foreign investors which primarily come from the United States. Exports have also received great importance and support, since the future of the Andean economies is determined, to a large extent, by their export potential. Nevertheless, these new activities are presently facing serious access inconveniences to the markets of the industrial countries. All this important effort would be jeopardized if confidence does not exist in the continuity of the preference mechanism operating within the United States. A significant percentage of the Andean countries' exports are destined to this market.

It is desirable once more to underline the great importance that the Generalized System of Preferences of the United States holds for the Andean Group. The renewal and, at the same time, the broadening of its benefits is considered absolutely necessary through a clear, legal, and precise framework that allows the beneficiary countries to maintain trust in the system while becoming a support mechanism to the development of the export activity.

It is worthy to recall that the International Trade Commission of the United States in its report "Appraisal of the United States Imports Under the Generalized System of Preferences" concludes that of total U.S. imports, excluding oil, imports under the GSP were 4.9 percent, and including oil, it only represents 3 percent. U.S. imports coming from the Andean Group merely reached 0.1 percent of total U.S. imports.

Also important are those observations made by the International Trade Commission itself concerning the factors that constrain the degree of penetration within the U.S. markets. These are, among others: (1) the limited spectrum of eligible products; (2) the selective nature of the GSP which tends to exclude the imports of so-called "sensitive" products; (3) the tendency to include products in the GSP with moderate tariff rates; (4) the competitive clauses, the yearly review system and the concept of graduation; and, (5) the limitation on production existing in the beneficiary countries.

Within this context, the enacting of the GSP by the U.S. created hope within the beneficiary countries to attain greater expansion in their foreign trade. On the other hand, it must be pointed out that the sectors of production and consumption obtain mutual benefits from the GSP, which allows the production of lower cost goods offering the U.S. consumer the same satisfaction as more expensive products with an additional savings margin.

The delegations of the Latin American countries attending the Technical Meeting of the Permanent Executive Commission of the Inter-American Economic and Social Council (CEPCIES), of the Organization of the American States (OAS) which was held in Panama in June 1983, agreed to convey to the U.S. government their views with respect to the renewal of the U.S. GSP. In addition, comments were made to make it more effective. The U.S. Delegation was receptive to these comments. The Andean countries hope that these suggestions will be taken into account by the Honorable Congress of the U.S. on the occasion of the renewal of the GSP.

It is the opinion of the Andean Group that the renewal of the U.S. GSP should contemplate the criteria which is described below in order to optimize the benefits it provides.

I. GRADUATION

The existence of the "graduation" criterion fosters a climate of uncertainty and instability in the export Industries of the beneficiary countries of the System: this inhibits programming and execution of new investments.

The purpose of reserving a substantial part of GSP benefits for the least developed countries may distort and restrain the capability for improving production procedures and technologies in sectors which might become competitive to some degree.

On the other hand, the withdrawal of benefits by graduation has infringed upon international commitments such as Resolution 6 (X) of UNCTAD's Special Committee on Preferences which recommends that any withdrawal or elimination of benefits be made through prior consultations and by taking into account the needs and interests of beneficiary nations.

The "Enabling Clause" (GATT decision of November 28, 1979 L-4903), constitutes the juridical basis for the granting of special and differential treatment to the developing countries. Whatever modification introduced in the GSP should preserve the internationally agreed upon principle, that the system is "generalized, not reciprocal and non-discriminatory."

II. COVERAGE OF PRODUCTS

A great effort has been made by the countries of the Andean Region in support of the exporting and industrial activities. The renewal of the Generalized System of Preferences should extend the System's benefits to products over which the Andean Group has certain comparative advantages in order that they may gain entry into the United States market. This extension would support the efforts of the Andean region towards their development and industrial diversification, and would enable more open competition of similar products with those of the developed countries which enjoy substantial technological advantages and a wider market.

In order to incorporate a greater number of articles from the Andean Group in the GSP list it is recommended that appropriate rules be included in the GSP renewal to allow for splitting and/or setting up new U.S. tariff schedules (TSUS).

A serious problem would result through the adoption by the United States of an individual nomenclature different from the one internationally accepted, that is, the Brussels Tariff Nomenclature, which served as a basis for structuring the Andean Group Tariff System. The existing differences between both systems make it difficult to establish proper correlation of the tariff schedules, something that would be resolved with a just approximation by the splitting of the tariff schedules.

At the same time it is expected that the new disposition should contain more flexible procedures for submitting applications of the beneficiary countries.

III. QUANTITATIVE LIMITATIONS

The countries of the Andean Group consider the clause on "Competitive Need" as an element which restricts development. Therefore, the Group requests that the 50% limitative criterion be eliminated, or at least that new parameters be affixed in a more realistic way and in proportion to the present world trade and particularly to that of the United States. It should be taken into account that the continuous deficit in the trade balance of the Andean Group with the United States, is a factor which worsens the economic and financial situation of the Group.

It is convenient that the new law of the Generalized System of Preferences establish an adequate mechanism to determine realistically the reasons for withdrawing a benefit. It is suggested to adopt the criterion that preferential imports could cause substantial injury to the domestic industry of the United States. It is also suggested that the loss caused by the elimination of any GSP concession, should be evaluated in order to allot a compensatory benefit, thus, avoiding the reduction of the beneficial level.

IV. RULES OF ORIGIN

The Andean Group considers that U.S. legislation on this matter is complex and conducive to confusion. Therefore, it requests that GSP regulations define the concept of "substantial transformation" and permit that, in addition to administrative expenses, the value of U.S. imported inputs be considered among direct costs of operation for the purpose of estimating the 35 percent of national aggregate value.

Finally, the countries of the Andean Group deem it convenient to increase to significant levels the present maximum level in the "de minimis" clause. The Group considers it necessary to have wider margins of equilibrium for the products that benefit from the system; this measure would contribute to avoid sudden and harmful additional deficits in their trade balances with the United States.

Washington, D.C., 16 of February, 1984.

MARIANO BAPTISTA,
Ambassador of Bolivia.
RAFAEL GARCIA-VELASCO,
Ambassador of Ecuador.
ALVARO GOMEZ-HURTADO,
Ambassador of Colombia.
ALLAN WAGNER,
Charge de Affaires, a.i. of Peru.
MARCIAL PEREZ-CHIRIBOGA,
Ambassador of Venezuela.

STATEMENT OF THE OFFICE OF ECONOMIC COUNSELORS, EMBASSY OF THE ARGENTINE REPUBLIC

The Embassy of the Republic of Argentina through its Economic Counsellors Office, has the honor to address the House Committee on Ways and Means and is pleased to have this opportunity to comment on the renewal of the authority of the President under Title V of the Trade Act of 1974 to grant duty free treatment on eligible articles from beneficiary developing countries under the Generalized System of Preferences (GSP).

Taking into account the difficult economic situation Argentina faces today, it is of special interest to the Government of Argentina that the GSP be renewed in accordance with the principles which originated it, that is to say, a non-discriminatory and non-reciprocal preferential system to assist developing countries by granting generalized preferences with respect to imports of products of such countries, which favor their exports.

The main purpose of the preferential tariffs system is to increase the export revenues, promote the industrialization and acceleration of the economic rate of growth of developing countries so that they may be able to finance the increased demand for imports needed for their economic development.

The access to the markets of developed countries, by means of generalized preferences, plays an important role in the promotion of the economic growth of developing countries, by helping them become more diversified in their production of goods, which permits the increase of their exports, thus allowing them to repay their debts.

The situation of the developing countries in general, as it happened to Argentina, worsen on account of the second petroleum shock, which took place between 1978

and 1979 when the industrialized countries, especially the U.S., reacted by applying very restrictive monetary policies in order to stabilize prices. They also made use of deficitary fiscal policies which did not adjust to their monetary policies. All of this directly affected the developing countries.

Furthermore, because of the recession most developed countries have been experiencing, there has been an increase in restrictive trade practices which have prevented and continue to prevent developing countries from making use of their export capacity, increase it or diversify their production to become more competitive in the marketplace. Consequently, the export revenues of those countries have diminished, for demand has also diminished on account of the recession. In turn, export prices for basic products also have suffered a decline.

Although, the real problem developing countries such as Argentina face today is a problem of their heavy external debt, also is a problem of revenues: the continuous increase in the cost of debt services takes up more and more a higher proportion of revenues originating from declining exports in volume and value.

The only way to eliminate the crisis those countries are presently experiencing is by generating higher revenues. This can only be achieved by means of increasing international trade. Foreign exchange earnings are a vital component of the revival of the economic growth of developing countries.

To this aim, industrialized countries such as the United States must put into practice systems that will allow, not curtail, the growth of exports from developing countries, maintain the free trade system, and also resist internal protectionist pressures. Moreover, protectionist measures impede the recovery of the industrialized countries and the economic expansion in general.

In sum, in the specific case of the United States, it is in everybody's interest to renew the Generalized System of Preferences in accordance with the principles which, as mentioned earlier, were the basis for its establishment. GSP has made to a certain extent an important contribution to the well-being of those nations suffering from severe economic difficulties.

The Generalized System of Preferences is one of the, if not the best tool the United States has to help those countries overcome their deficiencies. GSP is also the best way for the United States to promote itself as the world leader for free trade.

GSP benefits the United States principally by increasing developing countries' ability, among them Argentina, to purchase U.S. products.

Also, in the particular case of Argentina, the foreign exchange it earns, from its exports to the United States enables Argentina to service its substantial debt to U.S. banks. Market opportunities for Argentina's exports are therefore important for the maintenance of the health of some major U.S. banks, and to the health of the U.S. banking system itself. If Argentina cannot repay its debts, most likely the U.S. banking system will encounter serious problems.

The U.S. economy as a whole benefits from GSP since cheaper imports have a salutory effect in stimulating competition and restraining inflation. Moreover, cheaper imports of intermediate goods improve the competitive posture of final U.S. products both in the domestic market and abroad. The importance of GSP imports should not be overemphasized in view of their small percentage of overall U.S. imports.

GSP imports accounted for 4.9 percent of total non-petroleum imports in 1982.

As stated by the Chairman of the United States International Trade Commission in his presentation before the U.S. Senate Finance Committee on January 27, 1984, ". . . we should not attribute the 4.9 percent ratio of GSP imports to total imports entirely to the GSP program. Undoubtedly, many of these articles would have been imported from beneficiary countries whether or not a GSP program existed. . . ."

". . . GSP imports have not resulted in significant increases in the overall import share of the U.S. market. . . ." ". . . Overall GSP imports accounted for approximately 0.5 percent or less of apparent U.S. consumption during the 1978-82 period. . . ."

On the other hand, there is little evidence that GSP has injured specific U.S. industrial or agricultural producers.

Furthermore, it is reasonable to assume that to improve their competitive edge, U.S. importers, who gain a greater portion of the duty savings from GSP, pass on at least some of these savings to intermediary and end-users of their products in the United States. The result is an increase in the U.S. standard of living and lower prices as well.

The benefits to developing countries from GSP are clear. GSP gives imports from beneficiary countries a competitive edge over imports from other, non-GSP competitors. While the margin of preference GSP provides may be small, it has been impor-

tant in enabling nascent industrial sectors of those countries to compete in the U.S. market. By encouraging industrialization, GSP contributes to economic growth and political stability.

On the other hand, GSP imports do not affect U.S. producers of competing products significantly more than do non-GSP imports of identical merchandise. The average tariff paid on dutiable imports of products which compete with GSP eligible products from beneficiary countries will decline to approximately 4 percent when tariff reductions negotiated during the Multilateral Trade Negotiations are fully implemented. Thus the margin of benefit from GSP is small. The fact that so few petitions to remove products from GSP have been filed with USTR is clear evidence that GSP imports are not creating significant problems for U.S. producers of competing products. The 1983 USITC report reviewing the operations of GSP did not indicate that there were any significant amount of import sensitive imports under the program.

Moreover, GSP is an effective form of development assistance to developing countries. It could be considered a substitute for direct aid, contributing to put beneficiary countries on the path to self-sustained growth, stimulating business activity through trade opportunities.

Consequently, let's not limit the GSP goal by permitting that it not be renewed or by allowing that it be limited with a series of provisions which directly or indirectly exercise an influence on the benefits developing countries receive. Developing countries need to survive with the help of a program such as GSP. Therefore, at this critical time, its benefits should be expanded, not cut back.

It is the understanding of the Republic of Argentina that the System has to be renewed, introducing some changes toward the elimination of a series of provisions presently in force, which do not respond to the original expectations of the beneficiary countries.

For example, in the case of Argentina, an analysis of its exports to the U.S. shows that during the period 1976–1980 a 64 percent of the total exported were non-GSP products, while 36 percent represented products that benefitted from the system. In 1982, only a 30.9 percent were GSP exports, from a 40.7 percent corresponding to the exports of GSP products made during 1976.

The low utilization of GSP on the part of Argentina is mainly due to the application of limitative measures. For example, the exclusion of products through the competitive need clause continues to be the major limitative element of the system.

In summary, to the situation previously mentioned regarding the problem of the external debt of developing countries such as Argentina, exacerbated by economic policy measures adopted by the U.S., one must add the possible introduction of reforms to mechanisms such as GSP.

These reforms do not take into account the reiterated modifications suggested by Argentina. On the contrary, they grant, among other, a legal base tc principles which were systematically rejected by Argentina, such as graduation and reciprocity.

In the case of reciprocity, it is counterproductive to both the United States and developing countries, to demand increased access to their markets. Reciprocal concessions would drain scarce foreign exchange needed to service existing debts and reduced access to the U.S. market will cut back foreign exchange earnings. Other industrial countries have renewed their GSP programs without seeking reciprocal concessions. A unilateral demand of this sort of the part of the U.S. would be inconsistent with concepts of international burden sharing. The GATT "exception" for trade preferences to developing countries is based upon the premise that they will be extended on a "non-reciprocal" basis.

As stated by the Secretary of UNCTAD in his presentation before the Office of the United States Trade Representative last year, ". . . attempts to obtain reciprocal concessions from developing countries as the price of maintaining preferences would not only be inconsistent with the spirit and the letter of GSP, but also would be illogical. Reduced trade barriers in developing countries would not lead to greater imports, since their total volume of imports is limited by foreign exchange availabilities, with the latter being heavily dependent on their access to markets. . . ."

". . . The developing countries have provided the most dynamic import market in recent years, a factor which has helped to mitigate the effects of the cyclical distortions in developed countries. This dynamic element has clearly come to an end, not because of factors inherent in the economies of the developing countries, but because their capacity to import has been stifled by protectionist measures, often of a discriminatory nature, in their main markets, the collapse of the prices of primary commodities, and an almost insupportable debt-servicing burden. . .".

In reference with the graduation concept, it must be pointed out that the whole concept of graduation has a tremendous effect over the export revenues of GSP beneficiaries, especially as proposed in S. 1718. For example, in the particular case of Latin American countries, industrial production remains generally uncompetitive with that from developed countries. In this sense, the application of a graduation policy is premature, for although some areas of Latin American nations can be considered industrialized, graduation for an entire country on such basis would unfairly and unwisely eliminate from eligibility the underdeveloped sections of those nations whose per capita incomes are far below those of industrialized countries.

One of the main arguments for graduation is that GSP benefits should be spread more equitably among beneficiaries. It is claimed that if the share that goes to the more competitive beneficiaries is reduced, the share available for the other beneficiaries will increase proportionally. The spread of benefits is in large measure a function of the productive and export capacities of beneficiaries; thus the denial of preferential treatment to the "competitive" beneficiaries is unlikely to be to the advantage of other beneficiaries, with a lesser export capacity. A wider spread of benefits under GSP could be achieved only if the product coverage was enlarged to include products of particular interest to a large number of less developed beneficiaries.

It is impossible to avoid the conclusion that graduation is inconsistent with the fundamental principles of GSP.

The concept of graduation is unnecessary, controverted, arbitrary and incompatible with the needs of the developing countries. The less developed countries on their part, require other types of additional measures.

Argentina believes that the application of the graduation and reciprocity concepts, apart from not taking into account the principles which gave birth to the Generalized Preferences Systems, constitute an obstacle for access to the U.S. market and an element of pressure for the treatment of subjects foreign to this mechanism.

Furthermore, it could sooner or later complicate U.S. relations also with the other OECD preference-giving countries which attach great importance to the maintenance of equitable burden sharing. Clearly, if any preference-giving country felt that it was shouldering more than its proper share as a result of actions by others, it would be quickly moved to take similar action and ultimately the GSP benefits would be wiped out.

Finally, Argentina hereby makes valid the following proposals and claims that were approved at meetings that have taken place at different forums over the last couple of years:

1. The inclusion of products of special interest for developing countries, among them Argentina, which could coincide with those products the United States agreed to a reduction of tariffs negotiated at the Tokyo Round.

2. The rejection of any graduation policy which considers the granting of the same treatment to beneficiary countries, considered as countries of major relative development, as that applied to developed countries.

3. The automatic redesignation of temporarily excluded products. That is to say, when the import volume of a product does not exceed the competitive need limit, it should be automatically redesignated.

4. A more flexible application of current administrative procedures regarding requests for inclusion of products, given that they are so rigorous that it becomes almost impossible in practice to fulfill them.

5. A broader subdivision of TSUS item classification, especially in the case of manufactured articles, and also for typical as well as handicraft products. The United States has indicated that it intends to fulfill this request.

6. More flexibility in applying the law in relation to rules of origin, specifying the concept of substantial transformation, in such a way that the production costs, administrative costs, and other productions costs incurred by the beneficiary countries be taken into account.

7. The elimination of the mandatory exclusion for categories of products.

8. Not to exclude GSP products coming from developing countries through the application of safeguard measures.

9. The elimination of the 50 percent limitative criteria given that it constitutes an element of great uncertainty for the beneficiary countries, even though this restriction has been lessened through the "De Minimis" amendment.

The 50 percent limitative criteria is not flexible enough to accommodate to special factors likely to occur. Here again, the removal of products due to this criteria does not take into account whether trade of a specific product is likely shifting from a developing country to an industrialized country or to a less-developed country or

countries, thus becoming almost impossible to avoid that which the 50 percent criteria is supposed to avoid: the overabundance of imports of a particular product.

10. A permanent GSP. Continuity in GSP provides an opportunity to the exporter to plan and rationalize its production process. The objectives of GSP, as stated by UNCTAD at the conception of the idea were: to increase export earnings, to promote industrialization and to accelerate the pace of economic development. With a temporary GSP, there is no assurance that the preference will remain, and hence it is difficult to justify diversification and investment. The extension of GSP should permit this, especially if it is put in force for an indefinite period.

The Government of the Republic of Argentina is confident that the Honorable Members of the House Committee on Ways and Means will take into consideration the views expressed in this statement when analysing the different alternatives for the renewal of the U.S. Generalized System of Preferences and that the final decision on legislation will prove beneficial to all interested parties involved.

The Embassy of the Republic of Argentina, through its Economic Counsellors Office, renews to the Honorable Members of the House Committee on Ways and Means the assurances of its highest consideration.

Statement of the Association of American Publishers

The Association of American Publishers (AAP) is pleased to submit this statement concerning the Generalized System of Preferences to supplement the record of the Trade Subcommittee of the House of Representatives Committee on Ways and Means.

The Generalized System of Preferences provides trade benefits to less developed countries to encourage their role in the world economy. The trade benefits are very important to the beneficiary countries. The GSP program provides the U.S. Government with leverage over these countries to effect changes that will benefit the U.S. industries as well as the developing countries ultimately. To the publishing industry and to the other industries who rely on legal protection for intellectual property, reauthorization of the GSP provides an opportunity to continue a process that Congress began with enactment of the Caribbean Basin Initiative, during the first session of this Congress, when for the first time trade beneficiary status was clearly linked to the protection of intellectual property including patents, trademarks and copyrights.

The United States must not be insensitive to the needs of developing countries, and should assist in their development, but, we must carefully balance the trade benefits we grant them against the impact of such benefits on U.S. trade and U.S. industry. The countries that benefit most from GSP are frequently the same countries that deprive U.S. nationals of their economic rights. In this statement it is our intention to show how the GSP can strengthen the U.S. economy as well as that of the foreign beneficiaries of GSP.

In our view, it is not too much to require such countries to protect U.S. intellectual property interests in exchange for the very substantial trade benefits accorded them under the GSP.

The AAP is a trade association representing publishers of books, journals, and computer software. The more than 300 member companies and subsidiaries publish between 70 and 75 percent of the dollar volume of all copyrighted books published in the U.S. AAP publishers export materials worldwide and also provide for offshore publishing and printing through licensing and copublishing arrangements. The export market is important not only to American publishers, but also to industries that create and distribute other forms of intellectual property. The export value of U.S. produced motion pictures, records, tapes, books, journals, artworks, computer software, and other high technology intellectual property is in excess of $1 billion annually. Adequate and effective protection of copyright is the only way the world market for intellectual property can expand; without it, investment is reduced and jobs are lost in the publishing, printing and related industries.

It is a sobering thought that 12 of the top 15 GSP Beneficiaries for 1982 (Appendix A) clearly failed to provide protection to U.S. publishers against unauthorized reproduction and sale of copyrighted materials.

The problems consist of more than isolated acts. In many cases, "piracy" represents a wholesale disregard for the legal idea of copyright, as well as for the particular copyrights of U.S. nationals. In some countries, entire industries are built on the theft of intellectual property, aided by the complicity of governments who refuse either to enforce existing laws or to enact more stringent ones. Even when arrested, pirates are often released without fines or penalties to continue their unlawful be-

havior unchecked. Unauthorized versions of books and related products are sold within the pirate country. They are also sold for export to third countries further damaging the U.S. export market. Examples include books published illegally in Taiwan (a country whose 1982 exports to the U.S. of GSP products totalled $2.3 billion) that were exported to Nigeria, and books similarly pirated in Korea (a country whose 1982 exports to the U.S. of GSP products totalled $1.09 billion) that were exported to the Middle East and also sold via mail-order to Japan. These examples reflect the situation in the two countries that benefit most from the GSP program.

Flagrant disregard for intellectual property is inexcusable in countries which benefit from substantial trade and aid concessions provided to them. (Appendix B catalogues a few more examples of piracy experienced by AAP members in Taiwan and Korea, and this is only a preliminary list; Appendix C indicates other countries where U.S. publishers have suffered from theft of intellectual property.)

The Asian Wall Street Journal in its 5 December edition compared sales by pirates with sales by authorized importers and found that "pirates sell at least $100 million in books annually—and sales are rising. Importers of authorized books, meanwhile, sell only $5–$8 million and their sales are plunging." In short, legitimate business cannot compete with piracy.

The problem is approaching crisis proportions, it is therefore timely for Congress and the U.S. Government to send a message to the beneficiary governments under the GSP. The message should make clear that the U.S. Government will not tolerate this situation any longer. To assure that the message is received and understood, the GSP program must be reauthorized and that renewal must include language specifically requiring a country to secure, protect and enforce the intellectual property rights of U.S. nationals as a condition of GSP eligibility.

Piracy of intellectual property is detrimental to world trade. Piracy hurts U.S. nationals, but piracy is also a problem for the countries where it is allowed to exist. It does incalculable damage to indigenous authors and publishers, for those honest individuals cannot compete against the pirates; their economic incentive is thus undermined even within their own national markets. The problem of piracy has severely hindered the growth of local publishing and distribution businesses throughout the Third World. It also inhibits the free flow of information: where piracy flourishes, U.S. companies are loathe to trade, and this measurably curtails the inflow of educational and cultural materials. Where the information flow is thus artificially restricted, international understanding may be the principal victim.

Our experience with piracy indicates that major remedial action is required without delay. Countries must be given compelling incentives to enact strong copyright laws and to enforce the laws they pass. Their laws must actively discourage pirates from both unlawful local reproduction and sale, and also from unlawful export. The GSP program is an opportunity to provide such needed incentives, to show the less developed countries that piracy and other forms of disregard for intellectual property is no longer acceptable to the United States.

This subcommittee, and its counterpart in the Senate, was instrumental in recognizing the piracy problem in the Caribbean Basin legislation. There Congress undertook to add specific language to protect intellectual property. The passage of the Caribbean Basin Economic Recovery Act, reinforced by the firm implementing actions taken by the Executive Branch, has overcome initial resistance by certain Caribbean countries to the notion that they would be required to take specific remedial actions to halt piracy. They now appear to understand that sound domestic copyright laws and strong enforcement are in their own long-term interest. We are pleased to note that the AAP and several individual U.S. publishers played a role in this effort at persuasion.

We urge Congress and the Administration to see that the GSP reauthorization offers a parallel opportunity, one we cannot afford to miss. We would welcome the opportunity to assist the Subcommittee in the drafting of appropriate language.

The GSP is now structured as two sets of criteria: first, mandatory criteria (Section 502(b)) which, if not satisfied, render a country ineligible for trade benefits; and second, discretionary criteria (Section 502 (c)) which the President "shall take into account" before designating a country. The current law is clear, for example, (as reflected in Section 502(b)(4)) that a country which expropriates property owned by U.S. citizens without compensation cannot be designated, and subsection (4) (C) extends this condition to "taxes or other exactions, restrictive mantenance or operational conditions; or other measures" which have the "effect" of expropriation. While this language is arguably intended to encompass only the expropriation of physical assets within a country, we see no reason why it should be so restricted. A country which offers virtually no protection to U.S. citizens when their intangible (as opposed to tangible) property is "taken" without permission or compensation is

"expropriating" property just as much as if it were seizing physical assets. We therefore propose that reauthorization legislation include language to make clear that the mandatory condition governing expropriation extend to cover those countries which afford virtually no protection to intellectual property, and that current beneficiary countries be reviewed against these new mandatory criteria. The mandatory language we suggest allows the President to accept a country as eligible if he receives assurances that the country is taking definite steps to improve the level of protection for intellectual property provided. The President must report those assurances to Congress so that annually the actions taken may be measured against those assurances as a condition of continued eligibility.

Countries who are deemed eligible either because the President is satisfied with the assurances or because the level of protection is improving should be judged under the discretionary criteria.

With further reference to discretionary criteria we applaud the Reagan Administration's intention to interpret Section 502(c)(4) to extend the "reasonable access to markets" criteria to the protection of intellectual property. We would, however, urge Congress to include such intentions in the statute. The GSP is a 10 year program and later administrations may choose to read "reasonable access" in a different manner. Furthermore, only by adding unequivocal statutory language—such as was done in the CBI legislation—will be full commitment of the U.S. government to halt piracy be made evident. We believe the President should be equipped with unambiguous statutory language with respect to the adequate and effective protection of intellectual property. Attached as Appendix D is suggested statutory language that AAP proposed to amend Senate bill 1718 concerning the same issue.

We hope the Subcommittee will understand that, while the United States can benefit the entire world by bringing to it the benefits of our great physical wealth, the fruits of our artistic and intellectual creation may be even more important contributors to world peace, whether embodied in paintings and books or in newer forms like film and videotape. This country may well lose its comparative advantage in certain physical products, but we can be hopeful that our ideas and our art will continue to be exports of special attraction to the world. But that hope will depend in some part upon support by our government to assure protection for these precious assets.

APPENDIX A.—GSP 1982 TOP 15 BENEFICIARIES LIST

Beneficiary rank and country	1982 GSP imports (millions)	Percent of total $8.4 billion	GNP per capital (1980$)
1. Taiwan	$2,333	27.7	1,910
2. Korea	1,089	12.9	1,520
3. Hong Kong	795	9.4	4,240
4. Mexico	599	7.1	2,090
5. Brazil	563	6.7	2,050
Subtotal (1 to 5) equal	5,379	63.8	
6. Singapore	429	5.1	4,430
7. Israel	407	4.8	4,500
8. India	188	2.2	240
9. Yugoslavia	179	2.1	2,620
10. Argentina	173	2.1	2,390
Subtotal (6 to 10) equal	1,376	16.3	
11. Thailand	162	1.9	670
12. Chile	150	1.8	2,150
13. Philippines	137	1.6	690
14. Peru	104	1.2	930
15. Portugal	103	1.2	2,370
Subtotal (11 to 15) equal	656	7.7	
Total (1 to 15) equal	7,411	87.8	

Source: Office of U.S. Trade Representative

APPENDIX B

TAIWAN PIRACY

Addison-Wesley: Professional and college textbooks.

Bantam Books: Six titles in English and Chinese; mass market paperbacks; and Chinese editions were found in Singapore and Malaysia (expect that they were produced in Taiwan for export).

C. V. Mosby: Professional and college textbooks.

Educational Testing Service: 50 or more titles; tests and related materials; and test materials were reprinted in English with Chinese explanations—pirate is publisher-coaching school.

Elsevier: 10 professional titles.

Encyclopaedia Britannica, Inc.: 1 title—5,000 copies produced of a reference work.

Hammond, Inc.: 1 title, 1,000 copies—trade hardback.

Harper & Row: Books produced in Taiwan for export to East African countries textbooks and reference books; and the number of titles pirated have been about 50,000.

Houghton Mifflin: 1 title—hardback; suspect there are more.

John Wiley and Sons: College textbooks and reference works; Wiley attempts to license reprints where possible but sees this as futile; have had limited success in pressuring reprinters who are both pirates and customers; and evidence of of exports from Taiwan to Hong Kong and Singapore of pirated books.

Little, Brown & Co.: 36 titles, trade (hardback), professional and college textbooks; have supplied agents with books at lower prices or equal to the prices of pirated editions to try to knock pirates out of business. In Taiwan, books are reprinted under various government decrees. Trade, medical texts and professional books are all subjects of piracy.

McGraw-Hill: 300 titles, professional and college textbooks; and Taiwan exports pirated books to Nigeria.

Macmillan: 12 titles, college texts.

National Learning Corp.: Several professional, reference and trade paperback; and have stopped shipping to Taiwan.

Prentice-Hall: 15 to 20 titles pirated in runs of 5,000 to 25,000 copies; and college texts.

Quintessence: 2 titles—1,000 copies; and professional books—printed in Chinese, unauthorized translations.

Reader's Digest: 15 titles, some printed in runs as high as over 10,000 copies; and Chinese and English versions. Taiwan law does not consider copyright infringement a serious offense, thus enforcement authorities seldom initiate any action, and even when the infringer is taken to court, the penalties are ineffective deterrents.

Rizzoli International Publications: 1 title—trade book; and pirated versions translated into Chinese for domestic market.

St. Martin's Press: 2 titles—500 copies, 3 titles—2,000; and Taiwan exports pirated editions (sometimes via Singapore).

Simon & Schuster: For one trade hardback S & S wrote a "cease and desist" letter to the Taiwanese publisher, but received no response. Pirated editions have been found sold in the U.S., inquiry indicated that the Taiwan Government would not offer any real assistance.

South-Western Publishing Co.: Experience with piracy, but having difficulty quantifying.

Time-Life Books: 1 title, 1,000 copies of trade hardback in English; and retained local attorney: no effective result.

University of California Press: Independent publishers: Mei Ya, Taipei Publications, Four Seas Record and Publishing Co., are paying royalties to original publishers—but most see no need to conclude a formal contract with original publisher as long as government remains outside international copyright conventions.

University of Washington Press: One reference book was pirated. They entered into a legitimate co-publishing arrangement with local publisher.

Wadsworth: Two college textbooks were pirated.

Wesleyan University Press: 1-2 trade hardbacks.

William Kaufmann: Three volume reference set. Consulted an attorney who told them of the high cost of pre-empting copyright in Taiwan and forestalling piracy, so they didn't try.

PIRACY EXPERIENCED IN KOREA

Abingdon Press: Two titles, unauthorized translations. Abingdon wrote to the publisher or translator stating that they were aware of the project, that it was unauthorized, and that proper copyright notice was required on any reprint.

Addison-Wesley: Professional titles and college textbooks.

C. V. Mosby Co.: Professional and College textbooks, more than 100 volumes of one title, more than 300 volumes of another. Pirate is private publisher.

Cambridge University Press: More than 50 titles of college texts and reference books.

Elsevier Science Publishing: Five or ten professional titles. Books were reproduced in English by private publisher for domestic market.

Harper & Row: 5,000 copies of 6 different titles of professional and college textbooks. The books were in English. No legal action was taken because it would have been fruitless. Even the local publisher is unable to get protection because the government does not recognize the existence of any copyright law in Korea. Piracy is viewed as legal because there is no local law.

Lange Medical Publications: 8 titles of basic medical science were reproduced in the 100's of copies for each. Asian courts and law enforcement authorities tend to be lax or easily swayed in favor of the locals. Penalties are usually minor and frequently ignored.

Little, Brown and Co.: 36 titles of professional books were pirated. Have supplied agents with books at prices lower than or equal to prices of pirated editions in hopes of knocking pirates out of business.

McGraw-Hill: 300 titles of professional and college textbooks in unknown quantities have been pirated.

Macmillan: One medical book was pirated. Macmillan notified the Minister of Culture and Information of the Republic of South Korea, the Korean Publishers Association, the United States Embassy, the AAP and the publisher of the pirated edition. No results were obtained.

New England Journal of Medicine: Pirated versions of the journal have print runs of 300–1,000. They are distributed by subscription. Have been told that there is no legal recourse other than establishing local company. Draft revision of Korean copyright law has been held in abeyance. Pirate is subscriber who gets his copy air mail and runs it off competing with local legitimate distributors.

Pelican Publishing Company: 1 title in Korean of a trade hardback.

Prentice-Hall: College textbooks are pirated. Local law does not protect copyright of foreign publishers, and South Korea hasn't signed any international convention. Pirates provide books to bookstores on consignment and also sell through catalogs. WSJ reports on interview with one of 300 pirates who says he can compete with American publisher attempts to undersell and drive pirate out of business.

St. Martin's Press: 21 titles of professional and college texts, were reproduced in runs of 600 copies each. It is rumored that Korea sends copies to the Middle East. Also may sell by direct mail to Japan.

The University of California Press: The difference between the cost of the printed edition and the original is too big—4 to 6 times less—to discourage people from buying pirated editions. The problem is shared by the honest book importers. The top book importers have formed an association recently and formed their own publishing company to negotiate with foreign publishers for legitiamte reprint rights. They expect a new set of laws to be passed in the next two years to control the existing free-for-all piracy business. The company is United Publishing & Promotion Co., Ltd. in Seoul.

W. B. Saunders: Professional and reference works have been pirated by a large number of private publishers. There has been some export to Southeast Asia.

Wadsworth International: Four titles of college textbooks. Wadsworth tried to use reliable local distributors who would have interest in shutting down the pirates who had pirated the titles they had imported. No success.

John Wiley: Over 150 college textbook titles are pirated in Korea.

APPENDIX C.—COUNTRIES OF PIRACY BY PUBLISHER

[As of January 23, 1984]

Countries and publishers

Argentina: Houghton Mifflin; McGraw-Hill; Quintessence Publishing Co.

Australia: McGraw-Hill.

Bangkok: Little, Brown and Co.

Brazil: Quintessence Publishing Co.

Chile: McGraw-Hill.
Colombia: Bantam Books; and McGraw-Hill.
Costa Rica: McGraw-Hill.
Dominican Republic: Addison-Wesley Publishing Co.; Harper & Row; McGraw-Hill; Macmillan Publishing; and South-Western Publishing.
Ecuador: D.C. Heath & Co.
Germany: Macmillan Publishing.
Greece: St. Martins Press.
Holland: Acropolis Books.
Hong Kong: Addison-Wesley Publishing Co.; and University of Calif. Press.
India: American Association of Petroleum Geologists; Bantam Books; Cabridge Univ. Press; Harper & Row; Lange Medical Publications; Little, Brown and Co.; McGraw-Hill; C. V. Mosby Co.; National Learning Corp.; and Wadsworth International.
Indonesia: McGraw-Hill; C. V. Mosby Co.; Prentice-Hall; St. Martin's Press; and John Wiley & Sons.
Iran: Lange Medical Publication; and C. V. Mosby Co.
Iraq: Prentice-Hall.
Japan: Macmillan Publishing; and National Learning Corp.
Jordan: McGraw-Hill; and Wadsworth International.
Korea: Abingdon Press; Cambridge Univ. Press; Elsevier-Science Publishers; Harper & Row; Lange Medical Publications; McGraw-Hill; Macmillan Publishing; C.V. Mosby; New England Journal of Medicine; Pelican Publishing; Prentice-Hall; St. Martin's Press; W. B. Saunders; University of California Press; Wadsworth International; and John Wiley & Sons.
Lebanon: McGraw-Hill; and Princeton University Press.
Malaysia: National Learning Corp.; Prentice-Hall; and St. Martin's Press.
Mexico: Macmillan Publishing.
Nigeria: Cambridge University Press; McGraw-Hill; St. Martin's Press; and Wadsworth International.
Peoples Republic of China: American Association of Petroleum Geologists; American Geophysical Union; Elsevier-Science Publishers; Harper & Row; Lange Medical Publications; and McGraw-Hill.
Pakistan: Bantam Books; Harper & Row; Lange Medical Publications; Little, Brown and Co.; McGraw-Hill; C. V. Mosby Co.; St. Martin's Press; and John Wiley & Sons.
Peru: F. A. Davis; Harper & Row; McGraw-Hill; and Prentice-Hall.
Philippines: Bantam Books; Little, Brown and Co.; McGraw-Hill; National Learning Corp.; Simon & Schuster; Wadsworth International; F. A. Davis Co.
Singapore: Addison-Wesley Publishing Co.; F. A. Davis Co.; Dilithium Press/Matrix Publishers; Harper & Row; Prentice-Hall; St. Martin's Press.
Southeast Asia: Little, Brown and Co.
Syria: Prentice-Hall and Wadsworth International.
Taiwan: Addison-Wesley Publishing Co.; Bantam Books; Educational Testing Service; Elsevier-Science Publishers; Encyclopaedia Britannica; Hammond Inc.; Harper & Row; Houghton Mifflin; William Kaufman; Little, Brown and Co.; McGraw-Hill; Macmillan Publishing; C. V. Mosby Co.; National Learning Corp.; Prentice-Hall; Quintessence Publishing; Reader's Digest; Rizzoli International; St. Martin's Press; Simon & Schuster; South-Western Publishers; Time-Life Books; University of California Press; University of Washington Press; Wadsworth International; Wesleyan University Press; and John Wiley & Sons.
Thailand: Educational Testing Service; McGraw-Hill; Macmillan Publishing; and John Wiley & Sons.
Union of Soviet Socialist Republics: Congdon & Weed and Simon & Schuster.
Venezuela: McGraw-Hill.

APPENDIX D—FEBRUARY 15, 1984

INTELLECTUAL PROPERTY AMENDMENTS TO S. 1718

1. Section 502(b) of the Trade Act of 1974, 19 U.S.C. § 2462(b), is amended by adding a new paragraph (8) as follows:

(8) if such country fails to provide under its law adequate and effective means for foreign nationals to secure, exercise and enforce exclusive rights in intellectual property, including patent, trademark and copyright rights, unless the Presdient receives assurances satisfactory to him that the country is taking appropriate steps to

provide such means and he submits a written report to both houses of Congress detailing the nature of those assurances.

EXPLANATION

This paragraph provides that the President must deny GSP beneficiary status to a country whose system of laws fails to provide adequate and effective protection of the rights of United States nationals in intellectual property, including, but not limited to, patent, trademark and copyright rights and such related rights as trade dress. Under current law—paragraph b(4)—a country cannot be designated where it has "expropriated . . . . property" of a U.S. national without providing for compensation. Since this criteria appears to be directed at tangible property, paragraph (b)(8) would extend this same principle to intangible property as well. The amendment would also parallel paragraph (b)(4) in permitting the President, in effect, to waive the requirement by obtaining adequate assurance that the country was actively taking steps to provide the requisite protection of intellectual property rights and require him to report those assurances and the specific steps taken thereunder to the Congress. The language of the first clause of the amendment is the same as that which now appears in the Caribbean Basin Economic Recovery Act.

To determine whether a nation provides "adequate and effective means," the President should consider the extent of statutory protection for intellectual property (including the duration of such protection), the remedy or remedies available to aggrieved parties, the willingness and ability of the government to enforce intellectual property rights on behalf of foreign nationals, and the ability of foreign nationals effectively to enforce their intellectual property rights on their own behalf. The term "foreign nationals" is intended to refer to U.S. nationals and nationals of other countries with whom U.S. nationals have a contractual or similar relationship with respect to the sale or licensing of intellectual property, e.g., a non-U.S. licensee of the rights owned by a U.S. national.

It is recognized that the new paragraph (8) does not provide a single, objective test for determining whether the law of a foreign country provides adequate and effective protection for intellectual property, because this is not a standard susceptible to such a simplistic test. It is anticipated, however, that the President will consult with appropriate parties, including the U.S. Copyright Office and the Patent & Trademark Office, to fashion a set of criteria to be applied consistently and objectively.

2. The last paragraph of Section 502(b) is amended to provide:

Paragraphs (4), (5), (6), (7), *and (8)* shall not prevent the designation of any country as a beneficiary developing country under this section if the President determines that such designation will be in the national economic interest of the United States and reports such determination to the Congress with his reasons therefor. (New material in italic).

EXPLANATION

Consistent with the treatment of paragraphs (4)–(7) of the existing law, this paragraph allows the President to waive the provisions of proposed paragraph (8) if the national economic interests of the United States so require.

3. Section 502 of the Trade Act of 1974, 19 U.S.C. § 2462, is amended by adding a new Section 502(e)(1) and (2) as follows:

(e)(1) Not later than January 1, 1986, the President shall determine whether each beneficiary developing country designated as of the effective date of this Act satisfies the requirements of Section 502(b)(8) and he shall report to Congress his determination and the reasons therefor. If the President determines that any such country fails to satisfy these requirements, he shall terminate such designation consistent with the provisions of Section 502(a)(2).

(2) With respect to any country for which the President has received assurances under Section 502(b)(8), the President shall, not later than January 1, 1987, and annually thereafter, report to Congress the extent to which such assurances have been satisfied.

EXPLANATION

In view of the fact that a new criterion, Section 502(b)(8), has been added to the law, Section (e)(1) provides that, with respect to all countries who enjoy GSP benefits at the time the GSP Renewal Act of 1983 is enacted, the President shall undertake a review of each beneficiary developing country's system of law and determine whether the requirements of the new criterion are met, and if not, shall undertake to receive assurances that steps will be taken to provide the required protection.

The President shall make such determinations no later than January 1, 1986 and, on or before such date, report to Congress the reasons why he believes the country's laws either already provide such adequate and effective protection or that the assurances he has received satisfy him that the country is taking steps to provide it.

Where the President determines that the protection is insufficient or the assurances provided are inadequate, he shall terminate that country's designation after providing the notice to the Congress and to the country provided for in Section 502(a)(2).

The report required in Section (e)(1) would provide Congress with information on the status of intellectual property protection in all GSP beneficiary countries. Section (e)(2) provides for an additional report to be made to Congress by the President only for countries whose continued designation under Section 502(b)(8) was based on the future steps they would promise to take. This report, to be made by January 1, 1987, and annually thereafter, would provide Congress with information on whether such country has staisfied the assurances it has made.

4. Section 502(c) of the Trade Act of 1974, 19 U.S.C. § 2462(c), is amended to include a new paragraph (5) as follows:

(5) the extent to which such country is providing under its law adequate and effective means for foreign nationals to secure, exercise, and enforce exclusive rights in intellectual property, including patent, trademark and copyright rights.

EXPLANATION

Under the manadatory criteria in Section 502(b)(8), the President would be required to deny beneficiary status to any country whose system of law did not meet the basic criteria for protection under that section. In Section (c), however, the President would be able, in the exercise of his discretion, to condition GSP benefits for individual articles upon levels or types of protection which are greater than those required for designation under the mandatory criteria. Thus, in making the various determinations required in Section 504 of the Act, as amended by this bill, the President would expect, for example, a higher level of protection or enforcement of intellectual property rights where the country wished to obtain a reduction in the level of, or waiver of, the competitive need requirements under the new Sections 504(c) (2) and (3), or to obtain redesignation under the new Section 504(c)(4). Exercise of the President's discretionary authority in this manner would be particularly appropriate where the protection afforded by any country is minimal—though sufficient to meet the mandatory criteria—and the country seeks the additional benefits provided for in Section 504.

5. Section 504(c)(3)(B) of the Trade Act of 1974, 19 U.S.C. § 2464(c)(3)(B) (as proposed in S. 1718) is amended to read as follows:

(B) In making any determination under subparagraph (A), the President shall give great weight to the extent to which the beneficiary developing country has assured the Untied States that such country will provide equitable and reasonable access to its markets, *including the provision of adequate and effective means under its law for foreign nationals to secure, exercise, and enforce exclusive rights in intellectual property, including patent, trademark and copyright rights.* (New material in italic.)

EXPLANATION

This paragraph reflects the clear intent of the Congress that the extent to which the developing country affords protection for the intellectual property rights of foreign nationals shall be a key factor in the President's decision to waive the application of the Act's "competitive need" provisions.

STATEMENT OF LAUREN R. HOWARD, ON BEHALF OF THE BICYCLE MANUFACTURERS ASSOCIATION OF AMERICA, INC.

I. INTRODUCTION

On behalf of the bicycle manufacturer members of the Bicycle Manufacturers Association of America, Inc. ("BMA"), we submit this statement on the renewal of the Generalized System of Preference ("GSP"). BMA is a nonprofit trade association that represents three bicycle manufacturers,[1] accounting for approximately 80 per-

[1] The bicycle manufacturer members of BMA are: Huffy Corporation; Murray Ohio Manufacturing Company; and Roadmaster Corporation.

cent of the bicycle produced in the United States, and 16 companies that supply parts and components to these manufacturers.

We have reviewed the existing GSP statute, which is codified in Title V of the Trade Act of 1974 ("the Act"), 19 U.S.C. §§ U.S.C. 2461 et seq. (Supp. III 1979), and offer our comments regarding both necessary changes in GSP country and GSP product eligibility standards and the Administration recommendations for GSP renewal. Specifically, BMA recommends that, if Congress does renew the GSP program, it (1) impose greater restrictions on GSP country eligibility to ensure that nations that are no longer developing countries are inelgibile for GSP benefits; (2) enact stricter procedures to disqualify for GSP treatment products that are like or directly competitive with goods produced by import-sensitive domestic industries; and (3) expressly provide that bicycles are inelgible to receive GSP duty-free treatment.

II. IMPORTANT SENSITIVITY OF THE U.S. BICYCLE INDUSTRY

Prior to any discussion of suggested modifications to the Generalized System of Preferences, it is important to emphasize the import sensitivity of the U.S. bicycle industry, which is clearly illustrated by a review of import trends since 1948. When the United States cut tariffs pursuant to the GATT negotiations of 1947, imports increased dramatically. In 1948, the ratio of imports to apparents domestic consumption was 0.6 percent; by 1955, it had increased to 41.2 percent.

Because of this surge in imports, BMA filed an "escape clause" case in 1954 under section seven of the Trade Agreements Extension Act of 1951, Pub. L. No. 82-50. After the U.S. Tariff Commission made an affirmative recommendation, the President increased tariffs on light-weight bicycles from 7.5 percent to 11.25 percent and on other models from 15 to 22.5 percent. The ratio of imports to apparent consumption subsequently dropped to about 30 percent until 1964, when it declined to approximately 20 percent after the development of the "high-rise bicycle" by domestic manufactuers.

During the Kennedy Round of trade negotiations, the United States agreed to reduce the existing duties on bicycles by 50 percent over a five-year period beginning January 1, 1968. The direct result of those duty reductions was a significant increase in imported bicycles.

Thus, for the past 30 years, imports have attempted to dominate the U.S. bicycle market, surging dramatically with reductions in bicycle tariffs. Even today, imports continue to provide a formidable threat to the financial health of the domestic bicycle industry. In 1982, imports accounted for 25 percent of apparent U.S. consumption, a sharp jump from the 1979 import penetration level of 17 percent. See Attachment 1. During January-November 1983, imports continued to dominate over 28 percent of the U.S. market.

As a result of this escalation of imports, the U.S. bicycle industry has experienced serious injury. According to data collected by the International Trade Commission, net sales declined by 16 percent between 1980 and 1982; the number of production workers decreased by 24 percent during the same period, with employment in January-April 1983 13 percent lower than the same period in 1982. The ratio of operating income to net sales fell from 6.4 percent in 1980 to 0.2 percent during the period January-April 1983. See Attachment 2. In fact, in 1982, the industry experienced an aggregate operating loss of −1.6 percent of net sales. Moreover, the ratio of net pretax income to net sales plunged from 4.4 percent in 1980 to a loss of −1.3 percent in 1981, −4.7 percent in 1982 and −5.6 percent during the first four months of 1983. See Attachment 2. Clearly, this industry has suffered from the assault of imported bicycles.

Price—not quality or style—has been the principal reason why foreign manufacturers have been able to capture these increasing shares of the U.S. market. One reason for this cost advantage is low wage rates. Indeed, both the Executive Branch and the U.S. Congress have in the past acknowledged the increasingly difficult competitive environment of the U.S. bicycle manufacturing industry. During the Tokyo round on tariff negotiations, bicycles were one of the few articles that were not subject to import relief, yet were shielded from the duty cuts resulting from the Multilateral Trade Negotiations. The decision to place bicycles on the "exceptions" list resulted from a careful and comprehensive review of the financial viability of this industry and its vulnerability to increased imports as a direct result of low tariffs.

Moreover, the U.S. Congress has repeatedly attempted to improve the competitive posture of this industry by correcting the anomaly in the Tariff Schedules of the United States whereby the duties on various bicycle parts are higher than those levied on finished bicycles. Since 1970, temporary duty suspension legislation has

been enacted on five separate occasions to suspend the duties on a variety of bicycle parts. Because of the recognized import sensitivity of this industry, BMA has a vital interest in the structure of the Generalized System of Preferences.

III. DESIGNATION OF "BENEFICIARY DEVELOPING COUNTRIES"

BMA recommends that any statutory language continung the GSP program be modified to deny "beneficiary developing country" status to those countries that can no longer be considered "developing" nations. This will ensure that countries which are truly less developed benefit from the GSP program.

It is well documented that a few beneficiary nations receive the vast majority of GSP benefits. Upon introducing proposed legislation in 1982 to amend the GSP program, Senator John Heinz (R-PA) note that "our G.S.P. program is providing the lion's share of its benefits to countries that are no longer truly developing," specifically Taiwan, Korea, Hong Kong, Mexico and Brazil. 128 Cong. Rec. S4582 (1982). Senator Heinz concluded that "the G.S.P. program is failing to graduate the most advanced developing countries when the volume of their exports makes clear they are now fully competitive in particular economic sectors." *Id.* Information supplied by the Office of the United States Trade Representative supports Senator Heinz's conclusions. In 1981, the five major GSP beneficiary nations, Taiwan, Korea, Hong Kong, Mexico and Brazil, had a combined share of 60 percent of all GSP duty-free imports. In 1982, moreover, these five advanced beneficiary nations increased this overall share to 64 percent of total GSP duty-free imports and in 1983 to 65 percent. *See* Attachment 3.

At present, section 502(b) of the Act enumerates specific countries that are ineligible for designation as beneficiary developing countries, as well as specific conditions that, when satisfied, render other nations ineligible for such a designation. 19 U.S.C. § 2462(b) (Supp. III 1979.) If a country is not automatically excluded by operation of section 502(b), the President then makes a determination, taking into consideration four factors listed in section 502(c), whether to then designate that country as a beneficiary developing country. *Id.* § 2462(c). Section 504(b) of the Act addresses the withdrawal of such status from a particular country; it requires the President to "withdraw or suspend the designation of any country as a beneficiary developing country, if after such designation, he determines that as a result of changed circumstances such country would be barred from designation as a beneficiary country under section 502(b)." *Id.* § 2464(b).

BMA believes that the current statute is inadequate because it permits the continued designation of newly industrialized countries as beneficiary developing nations. Thus, in order to ensure that nations that are no longer "developing" countries do not continue to receive GSP benefits, BMA recommends the following modifications to the Act. First, section 502(b) should be amended to provide the "[n]o designation shall be made under this section with respect to any of the following: Brazil . . . Hong Kong . . . Mexico . . . Taiwan. . . ." Should this amendment be adopted as law, the President would then be required to withdraw the designation of these five countries as beneficiary developing nations. Such action is fully consistent with the evidence cited above that these five countries do not need GSP benefits to be competitive in the U.S. market. It would therefore ensure that only truly developing nations receive GSP benefits.

Second, BMA recommends that section 504(b) of the Act be amended to require the President, upon receipt of a petition from a domestic industry, to review and determine within 90 days whether, in light of the more discretionary factors enumerated in section 502(c), it is appropriate to continue treating a country as a beneficiary developing nation. In addition, the President should also be required to annually review this designation with respect to all beneficiary developing nations and report his findings to the Congress. In this way, the appropriateness of continued extention of GSP benefits to a nation that originally qualified as a beneficiary developing nation will receive regular scrutiny.

IV. GRADUATION OF INDIVIDUAL COUNTRIES ON SPECIFIC PRODUCTS

At present, the President has considerable discretion to determine whether to withdraw GSP treatment from a particular beneficiary developing country with respect to a specific product. BMA recommends that the Act be amended to set forth more precise standards to guide the President in this determination.

First, we note that section 504(c) of the Act establishes so-called "competitive need limits" requiring the President, when certain stated import levels of a particular product from a specific country have been reached, to discontinue treatment of that country as a beneficiary developing country with respect to that particular article.

19 U.S.C. § 2464(c)(1) (Supp. III 1979). However, section 504(c) then states an exception to this manatory exclusion if there is an historical preferential trade relationship, an economic treaty in force with the United States, and "such country does not discriminate against, or impose unjustifiable or unreasonable barriers to, United States commerce. . . ." *Id.*

BMA proposes to remove this exception to the otherwise mandatory operation of section 504(c). In our view, if a country exports a product to the United States in excess of the "competitive need" formula, the country is by definition "competitive" in that product line. In this regard, it should be emphasized that the "competitive need limits," currently well over $50 million, offers advanced beneficiaries an exceptionally generous ceiling on competitive imports. Accordingly, such advanced countries should not be given the extraordinary privilege of GSP status once such limits are exceeded since the underlying purpose of that statute-to ensure the competitiveness of a less developed country—has already been accomplished. Extraneous factors, such as the country's historical trade relationship with the United States, should not be taken into account.

In addition, the more advanced developing nations should be discouraged from making requests for preferential duty treatment. One way to accomplish this goal is to shift the burden of proof. In other words, advanced developing nations should be required to demonstrate that a special justification exists for adding one of their products to the GSP list and that such addition will not injure the U.S. industry.

V. GSP PRODUCT ELIGIBILITY STANDARDS

Section 503(c) of the Act states that the President may not designate import-sensitive products as eligible for GSP treatment. *Id.* 2463(c). However, the "import sensitivity" standard is not—by itself—sufficient to ensure that products from GSP beneficiary nations do not compete on a duty-free basis in the U.S. market with like or directly competitive products that are produced by truly import-sensitive domestic industries. Therefore, BMA recommends that section 503(c) of the Act be modified as follows to ensure that all import-sensitive products are ineligible for the GSP list.

First, section 503(c) must be amended to state sepcifically that the President may not designate bicycles as an article eligible to receive GSP benefits. The above discussion documents the import-sensitivity of the bicycle industry; this proposed amendment is therefore vital to ensure the continued viability of the U.S. bicycle industry.

Second, BMA urges Congress to declare ineligible for GSP treatment products that have been exempted (or partially exempted) from tariff reductions in the Multilateral Trade Negotiations. Is is inconsistent for the Executive Branch to prevent duty reductions during trade negotiations because of a product's import sensitivity and then unilaterally reduce those same tariffs to zero for certain trading partners.

Third, BMA recommends that products, with respect to which a final countervailing or antidumping determination has been issued, be declared automatically inelibible for placement on the GSP list. If a product to such an order is already accorded GSP treatment, it should be immediately removed from the list. Such a modification of the GSP statute will strengthen our commitment to combat unfair trade practices and will acknowledge the findings of import sensitivity inherent in the issuance or maintenance of such orders.

Fourth, it should be made clear in the statutory language that the proponent of a product's eligibility for duty-free treatment has the burden of proving that this privileged status will not adversely affect a U.S. industry.

Finally, given the extraordinary competitive advantage conferred by GSP eligibility, it is unfair to require that the President determine that a U.S. industry would be "materially injured" if an article is placed on the duty-free list. Congress recognized that concern when it disallowed GSP-treatment for "import-sensitive" articles. However, because of the difficulty faced by domestic industries with import problems in resisting GSP treatment for their products, it is appropriate for the U.S. Congress to make clear at this time that "import sensitivity" requires a much lower showing of adverse effect than the "material injury" standard evident in other U.S. trade laws.

Moreover, the President, in making an "import sensitivity" determination, should be required, among other things, to consider the impact of imports on a particular geographic region as well as on the U.S. industry on a nationwide basis. In addition, the President should also determine whether the technological development of any foreign industries that would benefit from the placement of an article on the GSP list is equal to, or exceeds, the technological development of the counterpart U.S.

industry. In such event, GSP eligibility should be denied because such industries do not need the competitive assistance granted by the GSP program.

VI. ADMINISTRATIVE PROCEDURES

Additionally, we wish to recommend certain changes in the administration of this statute to reduce the hardship on domestic industries suffering injury or threatened with injury by the placement of articles on the GSP list.

First, because imports can increase rapidly and thus swiftly injure a U.S. industry, the Office of the U.S. Trade Representative should accept petitions to withdraw products from the GSP list at any time during the calendar year. Currently, the Executive Branch prefers to review all such petitions once a year. Second, when an industry does petition to remove a product from the GSP list, there should be an administrative determination within 90 days. Industries facing injury from imports given preferential treatment should not be forced to wait an undue length of time for a decision.

Third, the Office of the U.S. Trade Representative has often conducted hearings simultaneously with those held by the International Trade Commission. Since the information presented to both agencies is often similar (and frequently identical), it is an expensive and cumbersome procedure to require duplicate hearings on the same issue. Therefore, consolidation of such hearings would save public and private resources.

Fourth, the Executive Branch should be required to detail the reasons for any actions taken with regard to the placement of an article on, or removal from, the GSP list as well as any decisions with regard to designations as beneficiary developing countries.

VII. ADMINISTRATION'S GSP RENEWAL RECOMMENDATIONS

Finally, BMA would like to address S. 1718, the Administration's proposed GSP Renewal Act of 1983. S. 1718, 98th Cong., 1st Sess. (1983). Initially, it is important to note that the Administration's bill offers several specific statutory modifications and thus acknowledges the need for changes in the current GSP provisions. However, the renewal bill's proposed revisions fall far short of correcting the statute's deficiencies and in fact will exacerbate the problems inherent in the current program. The needs of import-sensitive industries are not adequately addressed and Presidential discretion is greatly increased, rather than further circumscribed.

First, the Administration's bill would add a new "competitiveness" factor to the existing criteria under section 501 which the President must consider before extending duty-free treatment to imported articles. Under the GSP renewal proposal, the President would also be required to take into consideration "the extent of the beneficiary developing country's competitiveness with respect to eligible articles." S. 1718, 98th Cong., 1st Sess. § 3 (1983). In addition, section 4 of the Administration's bill would direct the President to undertake a general product review to assess whether a beneficiary country has, vis-a-vis other beneficiary countries, attained a sufficient degree of competitiveness to warrant application of stricter "competitive need" limits.

While both of these proposed modifications are welcome indications that greater focus should be placed on a beneficiary country's competitiveness when granting GSP treatment, BMA must emphasize that they do not provide the President with specific standards to determine when a country is in fact competitive in an eligible product. Without such standards for graduation of competitive products, neither foreign exporters nor domestic industries will be able to gauge whether a particular beneficiary country will be determined to be competitive in a particular product.

More importantly, however, BMA submits that the Administration's proposal to establish a two-tier "competitive need" system is not an effective substitute for a statutory amendment that expressly removes the most advanced beneficiary countries from GSP coverage. The renewal proposal, therefore, fails to adequately address the fact that the newly industrialized countries are, by definition, sufficiently developed to no longer warrant the trade advantages GSP affords. Thus, the Administration's second-tier $25 million or 25 percent "competitive need" cap on imports from such competitive beneficiary countries will illogically permit such countries to receive preferences on products in which they are fully competitive with U.S. producers.

Secondly, under the renewal bill, the President would be granted complete discretion to waive application of both tiers of the proposed "competitive need" limits when he deems it in the "national economic interest." Such waiver, moreover, would remain in effect until the President orders otherwise. A country that is deter-

mined to be economically competitive in an eligible product, therefore, may nonetheless be extended duty-free preferences for an unlimited time at the President's sole discretion.

In view of the fact that such competitive beneficiary countries should not in any case receive additional trade advantages under the GSP program, BMA cannot countenance broader waiver authority for the President. We strongly urge elimination of this waiver provision since beneficiary countries which exceed the applicable competitive need limit do not require GSP treatment for their products. If waiver authority is continued in renewal legislation, however, BMA recommends that Congress provide strict statutory limits on the President's latitude to grant and maintain "competitive need" exceptions.

Third, BMA likewise opposes the Administration's proposal to allow the President to waive, at his discretion, all the competitive need limits for least developed beneficiary countries. The President, under this provision, would have unlimited authority to classify beneficiary countries as "least developed" without any statutory guidelines as to what the term "least developed" signifies. Moreover, such countries could then export unlimited amounts of merchandise to the United States retaining duty-free treatment despite demonstrated competitiveness in a particular product.

Finally, BMA must note that the proposed renewal bill fails to address several significant concerns engendered by the current statute. In particular, the Administration's proposal fails to provide statutory criteria for determining what products are import sensitive and thus ineligible for duty-free preferences. As previously discussed, BMA urges that an "import sensitive" standard be specifically adopted as part of any GSP renewal statute.

In addition, the absence of any provisions requiring further congressional oversight of the GSP program and judicial review of administrative actions on GSP petitions leaves an obvious gap in the bill. Although the current statute requires the President to submit a report to Congress on the status of the program after five years, the Administration's bill eliminates this requirement in the future. Moreover, in a recent opinion, the U.S. Court of International Trade refused to review a Presidential decision which denied duty-free treatment to certain articles under the Generalized System of Preferences. *Florsheim Shoe Co. v. United States*, C.I.T. slip op. 83-66 (July 7, 1983). In the court's view, the complaint failed to state a claim upon which relief could be granted because the judiciary could not review the President's findings of fact or his motivations in such instances. Given that domestic industries can be seriously injured if the President places articles on the GSP list and thereby accords them duty-free treatment or if the President refuses to remove import-sensitive products from the list, BMA believes that the substance of such decisions should be reviewable by the U.S. Court of International Trade. Since GSP benefits are not entitlements, it is not necessary to grant the right of judicial appeal to importers who are disappointed in their efforts to gain the exceptional privilege of duty-free treatment. As demonstrated, an effective renewal bill necessarily must contain both congressional and judicial safeguards against arbitrary or unreasonable implementation of the GSP program.

Most importantly, the Administration's renewal bill does not expressly provide that the most advanced beneficiary countries, namely, Hong Kong, Taiwan, Mexico, Brazil and Korea, be graduated from the GSP program. Failure to designate these newly industrialized countries as ineligible for beneficiary country status will only perpetuate and exacerbate the already skewed distribution of GSP benefits in favor of the few advanced beneficiaries. Such highly developed countries must be permanently graduated to afford the truly needy developing countries an equitable share of GSP preferences.

VIII. CONCLUSION

The bicycle manufacturer members of the Bicycle Manufacturers Association of America, Inc. appreciate this opportunity to present their views on the renewal of the Generalized System of Preferences. BMA believes that, if the program is renewed, certain amendments with respect to country and product eligibility are essential. BMA also finds that, although the Administration's proposal recognizes this need for change, it fails to adequately address the primary concerns raised by the current GSP program. Specifically, BMA's major recommendations are as follows: (1) bicycles must be declared ineligible to receive duty-free treatment under the GSP program; (2) Congress must impose greater restrictions on GSP country eligibility to ensure that nations that are no longer developing countries are ineligible for GSP benefits; and (3) Congress must enact stricter procedures to disqualify for GSP treatment products that are like or directly competitive with goods produced by import-sensitive domestic industries.

ATTACHMENT 1.—BICYCLES: U.S. PRODUCERS' SHIPMENTS, IMPORTS, EXPORTS, AND APPARENT U.S. CONSUMPTION, 1979–82, JANUARY–NOVEMBER 1982, AND JANUARY–NOVEMBER 1983

Period	1,000 units				Ratio of imports to consumption (percent)
	Shipments [1]	Imports	Exports	Apparent consumption	
1979	9,038	1,867	52	10,853	17.2
1980	6,942	2,155	92	9,005	23.9
1981	6,832	2,224	91	8,965	24.8
1982	5,170	1,726	50	6,846	25.2
January–November:					
1982	4,902	1,448	47	6,303	23.0
1983	5,893	2,354	32	8,215	28.7

[1] Estimated by the Bicycle Manufacturers Association of America, Inc.; does not include sidewalk bicycles.

Source: Compiled by the U.S. International Trade Commission from official statistics of the Department of Commerce, except as noted.

ATTACHMENT 2.—INCOME AND LOSS EXPERIENCE OF FOUR U.S. BICYCLE PRODUCERS [1]

[In percent]

Item	1980	1981	1982	January–April	
				1982	1983
Ratio to net sales of:					
Operating income (or loss)	6.4	0.8	(1.6)	3.1	0.2
Net income (or loss) before income taxes	4.4	(1.3)	(4.7)	0.3	(5.6)

[1] Huffy Corporation, Murray Ohio Manufacturing Company, Schwinn Company, and Roadmaster Corporation.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

ATTACHMENT 3.—SHARE OF THE FIVE MAJOR GSP BENEFICIARIES IN TOTAL GSP DUTY-FREE IMPORTS, 1976–83

	1976	1977	1978	1979	1980	1981	1982	1983
All beneficiary, developing countries	3,160.3	3,838.0	5,204.2	6,280.0	7,327.7	8,395.5	8,426.0	10,764.8
Percent	100	100	100	100	100	100	100	100
Five major beneficiaries [1]	1,870.2	2,641.2	3,544.9	4,191.6	4,366.2	5,058.0	5,380.0	6,964.8
Percent	59	69	68	67	60	60	64	65
All others	1,290.1	1,236.8	1,659.3	2,088.4	2,961.5	3,337.5	3,046.0	3,800.0
Percent	41	31	32	33	40	40	36	35

[1] Taiwan, Hong Kong, Korea, Mexico, Brazil.

Source: Office of the United States Trade Representative.

Statement of Norman Lavin, President, Brass & Bronze Ingot Institute

The members of the Brass and Bronze Ingot Institute urge the Ways and Means Committee to make a full and complete review of the impacts that the Generalized System of Preferences (GSP) program has had on domestic production and employment. We believe that such a review will show that the GSP program has not been in the national interest and that it should not be renewed. We recommend that the Ways and Means Committee not report legislation that continues the GSP program.

The domestic brass and bronze ingot industry recycles thousands of tons of copper and other nonferrous waste and scrap each year, saving both energy and valuable national resources. The industry produces a large number of copper-base alloys that

are used by the nonferrous foundry industry as the raw material to produce castings that are in thousands of items in homes, business, plants and transportation.

The domestic brass and bronze ingot industry is being seriously impacted by imports and especially by the increasing imports from GSP beneficiary countries. The major impact is not from imports of ingot but is being caused by the rapid increase in imports of items made of castings. As a result of the surge in imports of items made of castings there has been a sharp drop in the demand for ingot by domestic foundries.

Production and shipments of brass and bronze ingot fell to less than 190,000 tons in both 1982 and 1983 from an average of 230,000 tons during the five-year period 1977–1981. The 1982 and 1983 production and shipments of ingot were lower than any year since the great depression during the 1930s.

The increase in imports has been a factor in the plant closings that has reduced the number of domestic ingot producers from 55 in 1959 to only 24 today. Even with the 56% decrease in the number of producers there remains overcapacity in the domestic industry.

The full impact of imports on the domestic ingot and foundry industries is difficult to quantify because many imported castings are not reported as castings because they are components of thousands of items from automobiles to electrical goods and hardware. However, examples of the increase in reported imports of castings are shown in the following table.

UNITED STATES IMPORTS: QUANTITY—POUNDS

	Copper valves	Copper alloy pipe and tube fittings	Brass plumbing goods, NSPF
1980	18,192,361	1,786,194	1,368,841
1981	21,332,927	1,849,671	1,897,306
1982	20,235,702	1,791,157	2,121,706
1983	24,868,556	2,817,515	4,134,170

As can be seen from these figures, during the most recent four-year period imports of copper valves have increased 37 percent, copper-allow pipe and tube fittings are up 58 percent and brass plumbing goods jumped 202 percent.

These increases in imports have been due to the sharp increase in imports from GSP beneficiary countries. During 1983, 65 percent of the imports of valves were from GSP beneficiary countries, as were 68 percent of the imports of brass plumbing goods and 87 percent of the imports of pipe and tube fittings.

The GSP program was enacted to assist developing countries by making their products more competitive in the U.S. market. This objective has been more than achieved since 1976. The duty-free treatment, plus low labor costs, have given the developing countries an advantage that is closing many U.S. markets for castings and items made of castings to domestic producers.

Each imported casting means one less casting produced in a U.S. plant using U.S. labor. Continuation of the GSP program can only contribute to more plant closings, more unemployment and a worsening of the U.S. trade balance problem.

On behalf of members of the Brass and Bronze Ingot Institute, I recommend and urge of the Ways and Means Committee not to report legislation that would continue the GSP program.

However, if the GSP program is renewed, it should be crafted on a very selective basis so as to reduce the impacts on all U.S. import-sensitive industries and assist only the lesser developed countries. The renewal should exclude all import-sensitive products and the more advanced developing countries such as Brazil, Hong Kong and Taiwan.

Statement of the California State World Trade Commission

Generalized System of Preferences

The Generalized System of Preferences (GSP), as authorized by Title V of the Trade Act of 1974, grants duty-free status to products imported to the United States from developing countries. GSP was intended to assist beneficiary developing countries increase their exports, diversify their economies, and reduce their dependence on foreign aid. The California State World Trade Commission recognizes that GSP

has contributed to the long-term economic development of some developing countries and has stimulated two-way trade with the United States. The Commission supports the extension of GSP, scheduled to expire in January 1985, contingent upon resolution of several problems in the existing program. The California State World Trade Commission:

1. Discourages the inclusion of agricultural items for GSP designation.

GSP was intended to encourage industrial, not agricultural, development in developing nations.

Specialty crops, including fruits, vegetables and tree nut crops produced primarily in California, have increasingly been proposed for GSP designation.

Other developed countries limit or exlude agricultural items from GSP consideration.

Comparative advantage in other factors such as wage rates reduce the need for preferential tariffs on agricultural commodities.

2. Supports adoption of a schedule of graduation from the GSP program for countries which have demonstrated their ability to compete in foreign markets. Almost 70 percent of program benefits go to but five countries, all of which are generally recognized as industrialized.

3. Recognizes that GSP designation is a unilaterally conferred benefit, not an entitlement. As such, the denial of GSP benefits for countries with restrictive trade practices is appropriate.

4. Urges that beneficiary countries be required to demonstrate the developmental benefit of preferrential tariff treatment.

Beneficiary countries often have been unwilling or unable to document the benefits likely to flow from duty-free status. The burden now rests on the U.S. domestic industry to document injury resulting from proposed GSP treatment.

5. Proposes that once a product has been denied GSP treatment, no like applications may be considered for a specified period of time.

Annual review of product applications by GSP eligible countries has been burdensome and costly for the U.S. government and the U.S. domestic industry alike.

STATEMENT OF DR. AVA S. FEINER, MANAGER, INTERNATIONAL POLICY DEPARTMENT, CHAMBER OF COMMERCE OF THE UNITED STATES

The Chamber is pleased to have the opportunity to support reauthorization of the Generalized System of Preferences, or GSP, program for ten years, with certain changes in the program. The Chamber supports the essential elements of the Administration's proposal to renew the GSP for ten years and make certain changes to enhance it as a tool for trade liberalization.

The GSP program, authorized in the 1974 Trade Act, supports development and trade expansion by permitting the duty-free entry of certain imports from designated developing countries. It reflects an agreement by the major developed countries to support the economic development of less advanced countries by offering them non-reciprocal tariff preferences. The U.S. program expires in January of 1985. Eighteen other major industrialized countries have similar programs. All but the United States and Canada have renewed their programs, and Canada is expected to renew early this spring.

The Administration has asked for a ten-year renewal of the GSP and for changes in the President's authority under the program. These changes would afford the President clear authority to use his power as a negotiating tool to obtain commitments for fair and equitable market access from the more advanced developing countries, such as South Korea and Taiwan. This is achieved in the Administration's proposal by specifically empowering the President to (1) tighten the "competitive need limits"—limits on the amount of a product that can be imported duty-free under GSP from a beneficiary country—on highly competitive imports from a country, and (2) to waive entirely these limits when the country makes trade concessions. In short, his powers are to be used as a stick and carrot respectively to negotiate for greater market access.

We support the GSP and the Administration's goal of using it to negotiate greater market access for U.S. business. We also support the provision in the Administration's proposal that authorizes the President to waive competitive need limits for the least developed countries. However, we believe Congress should be able to anticipate and influence the negotiating objectives to be set in connection with the President's new authority to waive or increase GSP limits for the advanced countries. Consequently, we call for safeguards on the use of this authority. Safeguard options include public hearings and Congressional consultations, Congressional approval of

general GSP-related negotiation objectives, or Congressional approval of legislation to implement the results of negotiations related to the waiver of competitive need limits for countries other than the most poor through "fast-track" procedures, such as those specified for legislation implementing non-tariff barriers agreements in the 1974 Trade Act. We also recommend that the Administration make clear in its proposal that highly import-sensitive goods will be kept off the GSP list, and therefore not become a subject of GSP-related negotiations.

At the same time, it is equally important that the particular economic conditions of GSP beneficiaries—such as large debt or the need to make structural adjustments to correct persistent current account deficits—be weighed heavily in the President's consideration of whether to "graduate" their products to tighter competitive need limits.

Before listing our recommendations on the Administration's proposal, I want to comment on the objectives of the GSP program, as well as its benefits and economic context today. The original decision of twenty developed countries to offer non-reciprocal tariff preferences to developing countries was based on a conviction that their economic development was best brought about by drawing them into the trading system, rather than simply sending them increasing amounts of aid. It also reflected the recognition that the free market countries of the world have a vital strategic interest in the emergence of these countries as dynamic trading partners and stable societies.

The rapid growth of many of the more advanced developing countries, often referred to as "NICs" for "newly industrialized countries," through the decade of the seventies testifies to the merits of the trade development idea behind the GSP program. Our trade and investment relations with GSP beneficiaries, such as South Korea, Taiwan, Hong Kong, and Singapore, have wrought large mutual benefits in the form of booming economic growth for them and burgeoning exports and investment markets for us.

The emergence of the NICs as a major force in international commerce has been particularly rewarding for the United States. While it is true that, in certain sectors, their products challenge our industries—thereby forcing us to sharpen our competitive edge—at the same time, their newly awakened markets are a vibrant source of demand for U.S. products and investment. Indeed, all the developing countries have long been America's fastest growing market. It is in our self-interest to consider carefully the effect that our trade policies, including any changes to our GSP program, will have on the health of those markets. We cannot expect those markets to grow if we cut off their sources of foreign exchange.

The GSP is no substitute for an open trading system. Barriers to trade and investment in developed and developing countries alike must be challenged head on. But the GSP is an important, though small, outpost on the frontier of movement toward worldwide trade liberalization. True, as currently structured, the trade liberalization due to the GSP is one-way. Still, it serves as a starting point for building a two-way street. It would be a mistake to use it to retreat to a more closed system. As the 1983 IMF Annual Report notes, restrictions on the exports of developing countries most penalize those who have liberalized their economies and adopted an outward-looking growth strategy.

The GSP program still works to draw developing countries into the international trading system. It is not simply that GSP encourages liberalization, or can be used, as the Administration proposes, to prod certain developing countries into greater adherence to trade rules. Trade relations enabled by GSP to serve to develop commercial ties that in time can foster trade flows both ways. American companies that have learned about the business ways of a country in the course of buying from it have an advantage in selling to it. Since business inexperience in world markets can be one of the greatest obstacles to our export growth, overseas contacts opened by GSP-induced trade can indirectly improve U.S. export performance.

U.S. export-opportunities also rise directly as the dollar earned here by GSP beneficiaries build their domestic markets and pave the way for growing demand for American exports. This simple truth is particularly important to bear in mind at a time when large debt and the worst worldwide economic recession since the Great Depression have left many developing countries seriously short of the foreign exchange necessary to service their debt and meet their basic import needs.

Growth in the merchandise export volume of non-oil developing countries slid from an average of 9 percent during the years between 1976–1980, to 6 percent in 1981—and then abruptly dropped to less than 1 percent in 1982. Losses were even greater for the more advanced developing countries—who would lose most from curtailment of GSP—as their merchandise export volume growth rate plunged from the 12 percent annual heights of the seventies to negative 2½ percent—that is, a 2½

contraction—in 1982. Even so, volume trends were less of a problem than sharply declining terms of trade, as import prices for developing countries rose at the same time export commodity prices fell and the dollar appreciated greatly. All the while, high real rates of interest persisted compounding debt problems as countries borrowed dearer dollars to pay interest on the cheaper ones they had borrowed earlier.

Since exports account for about one-sixth of the output of non-oil developing countries, the trade loss has played appreciable role in shrinking their collective annual growth rate from the 6 percent typically experienced during the seventies to a mere 1½ percent in 1982. To make matters worse, growth in domestic demand in developing countries all but ceased in 1982, whittled down from 6 percent growth in 1978.

This year prospects for the beginning of a worldwide economic recovery led by the robust growth in the United States help to brighten the picture for developing countries. Also the increase in the International Monetary Fund (IMF) capital subscription should set the basis for adjustment programs to redress their final imbalances. But for many, the road to recovery is pitted and long.

U.S. trade policies should be geared to enhance the benefits to developing countries of our economic recovery and the tough IMF adjustment programs, not contradict them. The stimulus of U.S. recovery and the discipline of adjustment plans can work only if we maintain—or better yet, expand—access to our markets for developing countries.

Countries that have taken on the social burdens of adjustment programs in order to put their financial houses in order, must reduce all but the most necessary imports and boost their capacity to earn foreign exchange. It would be short-sighted to devise trade policies that press on them non-essential imports, and at the same time, close off markets to them. They should not be expected to borrow their way through their debt-service problems—a foolish approach even if international lending was not falling off sharply. They must earn their way out. Unless they do, we will lose large chunks of our export sales, just as we lost some $17 billion of our sales to Latin American debt problems over the last two years, a loss that cost us some 400,000 jobs.

In this context, gutting the GSP program, or using it to exact unrealistic trade commitments from countries with crippling debt or deficits, would compound everyone's economic problems, while not really solving our own. Further, as these kinds of economic troubles can readily lead to social unrest. U.S. actions that ignore or even exacerbate these troubles endanger our strategic interests in the stability of friendly governments.

The GSP program is a positive force in moving toward greater trade liberalization, and can be made more effective by using it to establish a framework for removing impediments to trade and investment with developing countries. However, we would caution against turning the GSP into a tool for curtailing developing countries' access to our markets based on unrealistic demands as to how much change financially-strapped countries can or should bring about in a short time. The Chamber's specific recommendations on the provisions of the Administration's proposal are as follows:

TEN-YEAR RENEWAL OF GSP

The Chamber supports the ten-year extension of the GSP and recommends that at the end of five years the President report to the Congress on the operation of the program.

GSP ELIGIBILITY FACTORS

The Administration's proposal identifies certain factors, which are listed in Sections 501 and 502(c) of the 1974 Trade Act, the President should take into account in making determinations on GSP eligibility and competitive needs limits. It also adds to the list a country's competitiveness in a product. The Chamber supports this addition and recommends that three other factors be added: first, the ability of the United States to take advantage of the fact that developing countries provide the fastest growing markets for U.S. exports, an objective that is listed as a purpose of the Administration's proposal; second, a country's commitment to provide adequate protection of intellectual property rights, as well as afford market access; third, avoidance of adverse impacts on U.S. firms and workers.

AUTHORITY TO LOWER COMPETITIVE NEED LIMITS

The Administration's proposal specifies that the President has the authority to apply more stringent (i.e., lower) competitive need limits to countries that have

demonstrated relative competiveness concerning an article. This provides the president with leverage to obtain increased, or ensure continuing, market access, and it could be an important authority in helping to turn trade liberalization under GSP into a two-way street.

We support this authority, but recommend that the President be required to consider the specific economic circumstances of the beneficiary country that he is considering for product graduation, weighing heavily, for example, its financial or foreign exchange position and its current ability to grant broad trade concessions.

Nor should the GSP benefits for countries competitive in a product be limited primarily for the benefit of their competitors from foreign developed countries. Therefore, the test the President applies to determine whether to lower competitive need limits for a country's product should involve two-steps. First, the country's competitiveness in the product relative to the same or similar product produced by other developing countries, should be the determined. Second, the country's product competitiveness relative to foreign developed country producers should be determined. Only when the relative competitiveness of the GSP country for a product is established for both developing and developed country competitors should the more stringent competitive need limits be applied.

WAIVERS OF "COMPETITIVE NEED LIMITS"

The Administration also proposes to authorize the President to waive competitive need limits for any article from any beneficiary country upon determination that the waiver is in the U.S. economic interest, based on his consideration of the factors listed in Sections 501 and 502(c) of the 1974 Trade Act. However, great weight is to be given to the factor of whether the beneficiary country has assured the United States that it will provide equitable and reasonable access to its markets. Other factors included in those sections are the effect of duty-free treatment on the development of the beneficiary, comparable GSP-type efforts by other developed countries, the impact of duty-free treatment on the United States, the interest of the beneficiary in duty-free treatment, the beneficiary's development level, and the beneficiary's assurance of access to its commodity resources.

This is a controversial section because it grants the President broad authority to waive entirely the competitive need limits for a product based on his consideration of the listed factors. However, by stressing the consideration of assurances to provide market access, the waiver is made into leverage for exacting commitments that could enhance and protect U.S. commercial opportunities abroad.

We agree that the waiver authority is necessary to create bargaining leverage to induce certain developing countries to open their markets, and that if used realistically, GSP benefits can be an effective tool for expanding North-South trade and investment opportunities. But to ensure that the waiver authority does not conflict with other U.S. objectives, we recommend that it be modified in the following ways:

First, the law should specifically exclude any waiver for products that have been found to be import-sensitive.

Second, the President should be required to consider the particular economic circumstances of the beneficiary country, for example, its need to earn foreign exchange to address serious financial imbalances and its ability to grant trade concessions consistent with a financial adjustment program.

Third, the statute should specify the types of market access concessions by GSP beneficiaries that the President would consider in making his determination to waive competitive need limits on a product. The statute should cite examples, but they should not be exclusive.

Fourth, any waiver for other than the poorest countries should be made subject to safeguards. Options include: public hearings, consultations with Congress on negotiating objectives, granting specific negotiating authority in connection with the use of such waivers, or providing for Congressional approval of legistlation to implement the results of waiver-related negotiations through "fast-track" legislative procedures, such as those specified in Sections 102 and 151-153 of the 1974 Trade Act.

Finally, the statute should specifically include the protection of intellectual property rights, a fundamental protection essential to the conduct of international business, as a consideration to be heavily weighted along with market access in waiver decisions.

EXCLUSION OF LEAST DEVELOPED COUNTRIES FROM COMPETITIVE NEED LIMITS

The Administration also proposes to waive the competitive need limits for the least developed countries, as determined by the President and based on the factors listed in Sections 501 and 502(c). We agree that competitive need limits should be

waived for the least developed countries, but recommend that the President be asked to provide information on the criteria that will be applied in determining what is a least developed country, and indicate which countries are likely to be so classified.

CONTENT REQUIREMENTS

Under the current law, duty-free treatment applies only if the beneficiary provides not less then 35 percent of the appraised value of the article. To encourage additional U.S. content, value added in the United States should be counted toward this 35 percent requirement.

CONCLUSION

The Generalized System of Preferences program helps open avenues of commerce between the United States and the developing world, fosters trade expansion and liberalization, and can be made to do even more. It should represent an outpost on the frontier of progress toward an open trading system, not a pivotal point from which to reverse course. Renewing the GSP is also important for our political relations with nations of the South. We strongly recommend that Congress not permit the GSP program to lapse in early 1985, but rather this year renew the GSP with the important changes we have recommended.

DETROIT HOIST & CRANE CO.,
Warren, Mich., February 8, 1984.

Hon. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, House of Representatives, Washington, D.C.

DEAR SIR: U.S. manufacturers of overhead hoists have recently learned that hoists manufactured in Bulgaria are being offered for sale in the United States at prices substantially below those of U.S. manufacturers. They are entering the U.S. through Portland, Oregon; Pallyup and Seattle, Washington.

From what we have been able to determine, the Bulgarian hoists enter the U.S. through Canada, and thereby receive the benefit of favored nation status. The Canadian company soliciting sales and exporting Bulgarian hoists to the U.S. is Gantron Enterprises Limited.

As you are aware, the cost of conducting a countervailing duty or antidumping case against a "controlled economy" country is prohibitive. Establishing the cost of production and sale in the home market is a costly and almost impossible task.

Because the injury from these imports is substantial and will worsen without relief, we request your assistance in two areas. First, we ask that you initiate hearings on this subject. Secondly, we ask you to write to the U.S. Trade Representative, indicating your concern for the U.S. manufacturers and soliciting his assistance in reviewing the matter and stopping Bulgarian hoists from being offered for sale in the U.S. at prices substantially below those at which the U.S. manufactured hoists are sold in this country.

Sincerely yours,

LARRY PENTIUK,
Vice President.

STATEMENT OF RONALD K. KOLINS, COUNSEL, DIA-COMPE, INC.

This statement is submitted on behalf of Dia-Compe, Inc., a small, North Carolina company engaged solely in the business of producing and marketing bicycle caliper brakes. Dia-Compe is a member of the Bicycle Manufacturers Association of America, Inc. ("BMA") due to its being a supplier of a bicycle component to the domestic bicycle manufacturers. The BMA has submitted a comprehensive statement to the Senate Finance Committee related to S. 1718, the GSP legislation pending there. Dia-Compe largely concurs in the points made therein, but that submission does not address some of the unique and vital needs of Dia-Compe. This statement offers the position of Dia-Compe in the context of the Generalized System of Preferences ("GSP").

INTRODUCTION

Dia-Compe, a domestic company, constitutes the entire United States bicycle caliper brake manufacturing industry. Dia-Compe imports a major portion of the parts and materials used in its production of caliper brakes from Japan. All of this company's competition comes from fully assembled brakes imported from abroad, including Taiwan. Taiwan is, by far, the major GSP competitive country of origin.[1]

At the present time, bicycle caliper brakes enter this country duty-free regardless of their origin because of legislation which suspended the duty on caliper brakes and other specified bicycle components. That duty suspension puts Dia-Compe to a somewhat competitive disadvantage because it still must pay duty on some of the parts it imports for incorporation into its brakes, while its competitors export fully assembled brakes and pay no duty at all. Nevertheless, Dia-Compe strongly supports that legislation because it covers a substantial portion of its imported parts and because the duty-free environment is of great benefit to Dia-Compe's customers. The growth and well-being of the American bikemakers directly impacts Dia-Compe as a supplier to that industry. If they don't sell bikes, we don't sell brakes.

Dia-Compe has grown over the years because it offers a quality product and because, being located in America, can offer its domestic customers unmatched service. While it cannot match the deflated prices available from competitors in some countries such as Taiwan, the differential has been "manageable" in that the U.S. bikemakers were willing to pay somewhat of a difference as a premium for Dia-Compe's high quality and its more responsive level of service.

The ability and willingness of U.S. bikemakers to pay a "premium" is, however, limited. It is, in large measure, directly proportional to the price competition of foreign bicycles and therefore, Dia-Compe, while only a maker of caliper brakes, is a victim of the rise of imports of complete bicycles. Commensurate with the creation and opening of Dia-Compe in 1975, the bicycle industry itself was facing and continues to face a grave threat from ever-increasing foreign imports of complete bicycles. The threat was so ominous that the bicycle industry petitioned for and obtained relief in the concluded and implemented Tokyo Round of GATT negotiations. Competition in the bicycle industry is intense and cannot be overstated. Particularly now, with imports innundating this market and with the American consumer faced with the ravages of both inflation and recession, cost factors in bicycle production are critical.

Dia-Compe is surviving this debilitating environment but it cannot continue to survive if there is an expansion of the competitive price advantages already enjoyed by foreign producers. Yet, unless changes are made in the GSP, the competitive advantages enjoyed by low-cost producers from Taiwan will increase virtually overnight thereby destroying Dia-Compe and with it, the U.S. caliper brake industry.

Now, under duty-suspension, Dia-Compe can survive, despite some competitive disadvantage, because all brakes and most of the parts imported by Dia-Compe enter duty-free. By and large no one has a significant competitive advantage as a function of differences in duty rates. However, at the expiration of duty-suspension on bicycle caliper brakes, Dia-Compe will pay full duty on all that it imports while its pervasive low-cost competitors from Taiwan will be able to continue duty free imports into the U.S. because of the GSP.

Legislation which renews the operation of the GSP must consider the issue of retention of Taiwan, which has become a very successful and aggressive trader in the last decade, and of adding bicycle caliper brakes to the list of non-eligible products. To do otherwise not only perpetuates the fiction of Taiwan as a developing country in need of a trading "handicap", but could result in the destruction of a number of U.S. industries and companies, including Dia-Compe. The destruction of Dia-Compe alone will put over 100 persons out of work in this rural North Carolina area and deprive over 100 families of a means of support. There are few, if any, alternative employment opportunities in and around Fletcher, North Carolina and your committee, in its consideration of this legislation, must be mindful of that fact.

POSITION OF DIA-COMPE

In view of the foregoing, and assuming the renewal of the GSP program in some form, Dia-Compe urges that: (1) section 502(b) of the Trade Act of 1974, 19 U.S.C. § 2462(b), be amended to include Taiwan; (2) section 503(c) be amended to specifically

[1] While other GSP beneficiary countries produce and export bicycle caliper brakes to the U.S. market, Taiwan is by far the largest exporter and, standing alone, poses a grave threat to the domestic industry. Hence, this submission is directed toward the problem as it relates to Taiwan.

include bicycle brakes; and (3) section 504(c)(1) be stricken and replaced with a standard similar to that contained in the present section 501(3) thereby eliminating treatment as a beneficiary country with respect to a particular article if that country's exports of the article threaten the competitive posture of the U.S. producers.

DISCUSSION

The present GSP structure almost totally fails to respond to the needs of small American industries producing low-priced items which are threatened by the onslaught of foreign competition. The machinery for petitioning for the removal of eligibility for a country and/or a product is an annual opportunity of long duration, requirng a staying-power which is often beyond the limits of the stamina of a domestic industry under attack from abroad. Among the most tenacious low-cost traders in the world are certain countries which could perhaps have fairly been considered industrially underdeveloped at one time but cannot reasonably be so considered today. The coming expiration of the GSP provides a perfect and timely opportunity to address this terrible unfairness which haunts many a domestic industry. Now, this Congress can give recognition to the fact that certain trading partners can and should graduate to a more equal and realistic trading status. It is one thing for traditional American generosity to have given those countries a favored status to facilitate their development, but it is quite another for those countries to be given unlimited favoritism to the great detriment of our own industries when they no longer are adolescent in the area of world trade. Dia-Compe has specific reference to Taiwan. As to caliper brakes, Taiwanese companies now are responsible for over 2.5 million of the brakes sold in this country. If they were to derive the duty-free benefits of GSP while Dia-Compe would pay duty upon expiration of the duty-suspension provision, they would expand even further. Dia-Compe certainly could not survive.

Even under duty-suspension whereby every country enjoys duty-free status on caliper brakes, the Taiwan capacity, facilities, and exports have grown exponentially. In fact its exports of caliper brakes to the U.S. grew by over 345 percent from 1978 to 1983. During that period Taiwan's portion of total imports has expanded by 300 percent revealing a pervasive expansion pattern. This exponential growth will continue under any circumstances but, should it be fostered by allowing Taiwan to benefit from duty immunity while Dia-Compe is compelled to pay duty, Taiwan will have been granted the additional competitive advantage which would spell the end of Dia-Compe and with it, the end of the caliper brake industry in this country.

The erosion of Dia-Compe's business has already begun in that, with a serious softening of the U.S. bicycle market and the continued onslaught of foreign imports, U.S. bikemakers are looking for any viable way to reduce their costs. One way is to increase the use of the cheaper caliper brake made in Taiwan. All but one of Dia-Compe's major customers have recently placed orders in Taiwan either for the first time or for larger amounts than ever before.

Dia-Compe cannot wait for the expiration of duty suspension to seek changes in the GSP. Even assuming that Dia-Compe would ultimately succeed in having the eligibility of bicycle caliper brakes from Taiwan eliminated, the company could not survive the tariff disparity during the lengthy period of administrative procedures. Taiwan must be specifically listed as ineligible for designation as beneficiary of the GSP. To do anything less would violate the purposes specifically set forth in the Senate bill, for, as stated in that bill, sections 1(b)1, 1(b)8, and 1(b)10(A) respectively, the renewal of the GSP is designed to promote the development of developing countries temporarily until they can compete effectively; to integrate those countries into the international trading system; and to prevent adverse effect on U.S. producers and workers.

Taiwan has had a lengthy opportunity to develop industrially, an opportunity which it has taken full advantage of. It must not now be given virtually permanent GSP status. It has, to its credit, become fully integrated into the international trading system, and in fact is a leader and innovator in that system. Certainly, as to bicycle caliper brakes, continuation of Taiwan as a GSP beneficiary will dramatically and terminally effect the U.S. producer and all of its workers. Section 502(b) of the Trade Act of 1974 should be amended to include Taiwan as ineligible for inclusion within the GSP.

The particular crisis of the bicycle caliper brake industry can be addressed in an alternative way, by including bicycle caliper brakes in the list of products specified in section 503(c)(1) of the Trade Act as import-sensitive and thus not eligible to be designated for GSP treatment. This approach will recognize the drastic effect of GSP treatment on the U.S. producer of the same product as reflected in section 501(3) of the Act, as well as the drastic extent of the beneficiary developing coun-

try's competitiveness with respect to these brakes, a standard set forth in proposed section 501(4) of the Senate bill.

Finally, Dia-Compe urges that the standard of monetary value for "automatic" cancellation of eligibility set forth in section 504(c)(1)(A) be eliminated and a new standard be inserted which is consistent with the section 501 standards for initial eligibility. The existing monetary standard is totally unrealistic when measured against the needs of a small industry and/or an industry which produces low priced items. The standards for removal of a country and article from GSP eligibility is often the only lifeline for a berated U.S. industry. Those standards must be realistically attainable and reasonably related to all affected industries. A low price product, such as bicycle caliper brakes, cannot conceivably find relief under the standard set up in 504(c)(1)(A), now amounting to over $50 million. It is a standard totally unrelated to the reality of the product or the industry. Dia-Compe would long be destroyed if relief for it depended, as it may well, on it waiting until one country, such as Taiwan, annually brings in 30–50 million caliper brakes for a bicycle manufacturing industry which annually produces perhaps 5–8 million bicycles.

No arbitrary monetary standard can respond to the needs of any but the larger industries. Dia-Compe therefore suggests a standard for removal of eligibility similar to that for initial eligibility contained in 501(3).

CONCLUSION

Dia-Compe is and always has been willing to compete on an equal tariff footing with the members of the International trading system. It also fully understands the need to assist less developed nations in becoming full participants in the world's economy and to provide livelihoods for their people. However, no public or even international purpose is served by giving futher benefit to Taiwan at the expense of this domestic company and its work force. Taiwan is a fierce competitor which even now is rapidly expanding its U.S. market. Taiwan's substantial cost advantages allow its industries to be very strong competitors. No immunity from duty is required to permit Taiwan to develop a viable caliper brake industry. It reached that status some time ago.

When a country has become a fully integrated into the world system, it is inappropriate, unnecessary, and grossly unfair to continue to give it competitive advantages, particularly, as here, when those advantages spell doom for an American industry.

For the foregoing reasons Dia-Compe respectfully requests that continuation of the GSP program be made subject to: (1) removal of the eligibility of Taiwan as a beneficiary country; (2) inclusion of bicycle caliper brakes as a product not eligible for designation as an article to be given GSP treatment; and (3) imposition of a competition standard in lieu of the monetary standard for "automatic" removal of eligibility.

STATEMENT OF LORI-NAN KAYE, GENERAL COUNSEL, ELSCINT, INC.

Members of the committee, my name is Lori-Nan Kaye. I am the Corporate Secretary and General Counsel to Elscint, Inc. in Boston, Massachusetts.

Elscint, Inc. is the U.S. subsidiary of Elscint Ltd. of Israel, a manufacturer of medical diagnostic imaging equipment, such as CT scanners and gamma cameras.

I am submitting this written statement because Elscint, Inc. imports from Israel CT scanners and gamma cameras, as well as other highly advanced medical diagnostic imaging equipment. Thanks to the GSP program, these articles enter the United States duty-free. For reasons more fully explained below, this duty-free treatment has assisted Elscint to become more competitive in the United States which, as a result, has benefitted many Americans. The purpose of my statement is to urge you to continue the GSP program and, in particular, to continue Israel as one of the countries entitled to receive benefits under the program.

Elscint Ltd. is a corporation whose shares are publicly traded over-the-counter in the United States. At the end of February 1983, approximately 8.5 million shares of Elscint ordinary F Series shares outstanding were held by American shareholders. Shares of Elscint Ltd. are valued at approximately $18.00 per share on the over-the-counter exchange.

Elscint, Inc., a wholly-owned subsidiary of Elscint Ltd., is a U.S. corporaton with headquarters in Boston, Massachusetts. Elscint, Inc. and its subsidiary, Elscint Imaging, Inc. employ about 1,000 American citizens in the Untied States, with an annual remuneration (in 1983) of approximately $16 million. Elscint, Inc. is a U.S. manufacturer of ultrasound equipment which is produced in Boston. We also engage

in research and development in the United States. In addition, Elscint, Inc. dispersed approximately $6.5 million in 1982 to U.S. businesses for rent, utility services, communications services and travel services. Finally, Elscint, Inc., as agent for Elscint Ltd. in Israel, is a very large purchaser from American suppliers. At least 50 percent of the component parts in Elscint's gamma cameras and CT scanners are U.S. made. In 1982 alone, Elscint, Inc., purchased approximatlely $14 million in goods and supplies from U.S. businesses. Thus, to the extent that duty-free treatment assists Elscint in becoming more competitive in the United States, many U.S. citizens and businesses profit.

In December of 1983, Elscint, Inc. acquired certain assets of the Xonics, Inc. relating to its X-ray product line. By this acquisition, and the formation of a wholly-owned subsidiary called Elscint Imaging, Inc., Elscint, Inc. added more than 400 persons to its payroll. It is expected that this growth will benefit many U.S. citizens and businesses through the X-ray product line, much of which will be manufactured in the U.S.

Now, without being too technical, I would like briefly to discuss some of the products Elscint manufactures. Computerized tomography (CT) scanners are complex X-ray devices operating in conjunction with a computer to provide images of the human body. In general, the scanners direct X-rays through the body which are then sensed by an array of radiation detectors. The radiation detectors receive the radiation which is passed through the patient and converted into electrical impulses. The electrical signals are digitized and fed into a computer system. The computer then takes the data and reconstructs a clinical image. The resulting image seen by the physician is a cross-section, or slice, of a particular portion of the body. CT technology is very beneficial to the physician and to the patient in that it often obviates the need for exploratory surgery in order to make or confirm a diagnosis. CT technology also is used in place of other invasive diagnostic techniques which could be more dangerous or painful for a patient. In addition, this technology can shorten hospital stays because scans can be done on an out-patient basis.

Gamma cameras, which have been used since the late 1960's, use gamma rays to produce a visual image on a cathode ray tube of internal tissue, usually an organ. The patient undergoing a gamma camera study is injected with a radioactive material which collects in the tissue being studied. The camera is then placed near the tissue area and receives the gamma rays emitted by the radioactive material.

The gamma camera contains (1) devices which control the viewing angle of the camera, (2) a scintillator crystal to convert the gamma rays discharged from the tissue into a light pulse, (3) an array of photo multipliers behind the scintillator crystal to change the light pulse to electrical form, and (4) an electronic system. The light pulses are converted to electrical form, and are then translated to spots on the picture tube. The entirety of such accumulated spots presents an image of the tissue area under investigation, from which a diagnosis can be made.

Elscint is a dynamic company which has devoted much time, effort, money and brain power to research and development. Both our CT scanners and gamma cameras contain design features that other manufacturers of similar products to not provide. Elscint's gamma camera has been acclaimed by experts as being several years ahead of the field. Our gamma camera has a very high count rate capability. This means that the computer can acquire much data in a short period of time and thus form the image of the organ very quickly—much more quickly than most other gamma cameras do. A clear, accurate image is produced in less time. This has a distinct benefit: in performing a quicker scan, it is possible more accurately to monitor fast moving organs, especially the heart. For this reason, our system is preferred for use in certain heart studies that require monitoring the passage of radioactive material through the heart.

As for Elscint's CT scanner, Elscint markets what we call a Satellex scanner system. The Satellex system consists of a "host" installation, containing the CT scanner gantry and the central computer, and a "remote" station, which has a CT scanner gantry that transmits data by telephone lines to the host station for processing. In other words, the host computer power is distributed between several gantries. The Satellex system is usually purchased jointly by several small medical institutions with limited resources and small patient bases. The total cost of a Satellex system to institutions is slightly less than the price of one of the single, top-of-the-line scanners offered by other CT scanner manufacturers.

The Satellex system has been very well received in the United States, in particularly by customers in smaller rural areas. Without the Satellex system, it would be unlikely that these institutions could afford a CT scanner, and patients would be deprived of this valuable diagnostic tool.

Other Elscint products include ultrasound, mammography, conventional X-ray, and digital florography and digital subtraction angiography. Elscint is also in the process of pursuing Pre-Market Approval for its nuclear magentic resonance scanner. In short, Elscint is a total diagnostic imaging company—one which not only offers all imaging modalities, but one whose single focus is the advancement of this important sector of the health care market.

Elscint technology assists in bringing diagnostic treatment to more patients at less cost. Obviously, one very important factor reducing costs has been the savings in import duties. Even though the duty on the imported products, which ranges from 2.3 to 4.4 percent, is in the low to medium range, the products imported by Elscint are very high-valued items—one CT scanner alone can cost up to $1,000,000. In the aggregate, the duty-free entry saves considerable sums, which savings are then passed on to health care consumers.

As you are well aware, the cost of health care has become almost an unbearable financial burden for many. Elscint is very committed to finding ways to bring its valuable and sophisticated diagnostic equipment to the public at reasonable costs. The GSP program has been of great assistance in furthering our efforts. We urge you to continue the program and to continue Israel's eligibility for benefits under the program.

STATEMENT OF DAN HALPERIN, ECONOMIC MINISTER, EMBASSY OF ISRAEL

As Economic Minister of the Embassy of Israel, I am writing to indicate Israel's continued support for the GSP program and to urge the Congress of the United States to renew the program for at least another ten years. Israel believes the program is well-conceived, is working well, and is of real value to developing countries such as Israel.

Israel and its exporters, as I am sure you are aware, have fared relatively well under the current GSP. Our exports to the U.S. receiving duty-free benefits under the GSP have generally increased from year to year: from $248 million in 1980, to $324 million in 1981, to $407 million in 1982. As a result, Israel is currently seventh in terms of GSP utilization, with a 4.8 percent share of the $8.4 billion in GSP imports that entered the United States in 1982.

I believe it is fair to say that throughout the years Israel has played one of the most active roles in supporting the U.S. GSP. Our exporters have participated in every annual review, seeking either designation of new products, continued benefits for those products already designated as eligible, and redesignation of products previously removed. Needless to say, our exporters did not succeed with each and every product. But the hearings were fair and open and our exporters, I believe, are generally satisfied with the results of their efforts.

The Congress now has under consideration an Administration proposal that would reduce the competitive-need criterion for certain countries, depending upon the country's level of development. Israel does not necessarily oppose such an approach to "graduation"; however, we urge the Congress and the Administration to avoid determinations regarding reduced competitive-need limits based on static, one dimensional analyses. The use of criteria such as utilization rates or of per capita GNP, while of certain validity, must also be coupled with analysis of a country's overall economic and political situation, as well as with its historical trading relationship with the United States.

As regards per capita GNP, this can be a very misleading indicator of development. Certainly per capita GNP in and of itself does not indicate the real standard of living of the people. This is especially true in the case of Israel, where the GNP is made up to a great extent of defense spending; upwards of 40 percent of Israel's GNP is committed to defense. So too, in Israel's case, one must look at the other side of the coin, debt per capita. Israel has the highest debt per capita of any nation. If one looks at per capita GNP only, Israel appears very well off; if one, however, also considers debt per capita and how much of the GNP is for defense, the picture of Israel changes considerably.

As regards utilization of the GSP, certainly no country should have its competitive-need level reduced merely for making use of the program. Whether a country is among the top 5, or top 10, or top 15 in terms of utilization seems to be one of the least cogent reasons for penalizing that country. This is especially true when one considers what "utilization" means in terms of total imports into the U.S. As I noted, Israel's current share of the GSP is 4.8 percent. The USTR has recently noted that GSP imports constitute only 3 percent of all imports. This means that Israel's GSP imports are 4.8 percent of 3 percent, or about 0.1 percent of total imports. In

this context, we suggest, utilization as a criterion for assessing competitiveness of a country becomes virtually meaningless.

Using utilization as a criterion also appears to provide a direct disincentive for developing countries to increase exports under the program. If a country knows that solely by increasing its exports under the program it runs the risk of having its competitive-need limit reduced, that country is likely to monitor and limit exports. This, of course, flies in the face of the very purpose of the program, which is to encourage countries to industrialize, diversify, and increase exports.

With respect to Israel, I should also note that many of Israel's products tend to be somewhat more sophisticated than those of many of the other developing countries receiving GSP benefits. Accordingly, reducing Israel's limits is very unlikely to benefit the least developed beneficiaries. Rather, the only countries that would likely benefit from reductions affecting Israel are non-GSP, developed countries.

In view of these considerations, Israel is hopeful that the mere fact that it had made use of the program will not bring about reduced competitive-need limits. Notwithstanding its share of GSP imports, Isreal is still a developing country in need of all the benefits afforded under the GSP. Israel cannot yet be considered as competitive as more advanced exporting nations. That this is the case may be seen from the actual case history of one of Israel's exports that was graduated, gold rope chain jewelry.

Gold rope chain jewelry from Israel lost GSP benefits in 1981 as a result of exceeding the 50 percent competitive-need limit. Israel had been able to achieve relatively high shipments of this jewelry because, with the GSP, Israel could compete successfully with Italy, the world's major jewelry producing nation. Notwithstanding the centuries-old tradition of gold jewelry craftsmanship in Italy as compared to only a few decades in Israel, the price differential resulting from the duty-free treatment allowed Israel to increase sales at the expense of Italy. In the years following loss of GSP benefits, however, Israel's share of the gold rope chain import market dropped from 50 percent to about 1 percent; that is, from over $5 million to just slightly over $200,000. In short, Israel was not yet competitive and, as a result of loss of GSP benefits, Israel was literally driven out of the U.S. market for this product.

Israel is clearly still developing and in need of GSP benefits. Irrespective of Israel's successes under the program, Israel has a very real need to increase exports in order to solve its economic problems. As many international economists have noted, Israel's economy is unique; no other economy comes close to resembling it.

Since its establishment, the State of Israel has experienced an excessively large deficit in its balances of payments. Exports increased at an average annual rate of 18 percent during the years 1955 to 1981. At the same time non-military imports increased at a lower average annual rate of 14 percent. Despite the faster average growth rate of exports as compared to that of imports, the non-military deficit in the balance of payments continued to grow. This is explained by the initial low level of exports as compared to the higher level of imports, which resulted in a greater absolute increase in imports, as compared to the increase in exports.

The growth in imports and the deficit is the result of two major factors; exceedingly large direct and indirect foreign exchange expenditures for defesne and the need for rapid economic development. Fast growth was dictated by the need to absorb mass immigration, with most of the immigrants arriving without any financial means of support. Israel's dependence on imports also results from it limited natural resources and its dependence on imports of raw materials, especially fuel, the price of which has increased considerably over the last ten years.

Another factor contributing to the deficit was fast rising interest payments on growing foreign debt. Close to 50 percent of the current deficit had to be financed by foreign borrowing. Debt redemption has become a heavy burden, both on the balance of payments and on the government budget, competing with development projects for limited foreign exchange resources. Had it not been for the high cost of debt-servicing, by now Israel likely would have been able to finance both its development and military procurement from its own resources, without resort to foreign aid.

Despite the large deficit in the balance of payments, the large overall current deficit of more than $4 billion, and other problems Israel has had to face, a sound economy is being constructed. Israel's economic achievements are manifested into the productive absorption of mass immigration; the establishment of a sound and economic infrastructure; the extensive increase in productive capacity in manufacturing industries, agriculture and services; and particularly in the growth of exports. A structural change in investment, production and employment is taking place, reflected in the increasing weight of exports in Israel's total production and in the

development of a whole range of sophisticated export products sole in all major markets. Needless to say, the GSP has aided significantly in this process.

Despite the continued economic progress made, however, Israel's need for both military and economic aid has grown considerably. These needs stem to a great extent from factors beyond Israel's control: the increase in military expenditures in foreign exchange; the rise in the price of oil and other vital imports; the growing burden of external debt-servicing.

The cost of oil imports in 1982 is estimated at $2.0 billion, an increase of $19 billion since 1972. Had it not been for the return of the Sinai oil fields to Egypt within the framework of the Camp David accords, Israel would have been totally independent of oil imports by now.

Debt-servicing is estimated to have been $3.5 billion in 1983, an amount far exceeding total aid received in recent years. Debt-servicing to the U.S. Government alone is estimated to have been at over $1 billion in 1983, an amount exceeding economic aid approved in recent years.

In 1982 a deterioration occurred in the balance of payments accompanied by an increase in the pace of inflation. The deterioration in the balance of payments is mainly attributable to a considerable slowdown in the growth of exports, resulting from the continued slack demand in world markets and a decline in net returns on exports to non-dollar markets, due to the strengthening of the dollar.

In short, while we have improved our economy, with out excessive deficit in our balance of payments, we must export. Indeed, Israel must continue to increase exports at least at the pace of prior years. In 1982, this pace slowed; without continued GSP benefits, it is doubtful the pace can be picked up and maintained.

Exports are, of course, only one side of the international trade coin. The other side is imports. Increasing exports from Israel have allowed—and will continue to allow—Israel to, in turn, import increasing amounts from the United States. Currently, Israel is the third largest importer in the Middle East of U.S. products. Israel has consistently imported more from the U.S. than it has exported to the U.S. Approximately 20% of Israel's non-military, merchandise imports in 1981 came from the United States; that is, about $1.63 billion dollars worth of U.S. products were sold in Israel in 1981 as compared to $1.2 billion Israeli products sold in the U.S. in the same year. Most important, it is agriculture, high technology and industrialized items that are the U.S.'s major exports to Israel. As a recent U.S. Department of Commerce, "Foreign Economic Trends" stated:

"Machinery and electronic equipment products are the major U.S. exports to Israel. They offer good prospects for the future, as Israel seeks to expand its own exports. This will continue to require high-quality, large-volume production machinery. U.S. agricultural products will also continue to find a good market in Israel, which must import sizeable quantities of grains and soybeans."

Finally, in the context of U.S. exports to Israel, I would like to remind the subcommittee that U.S. exporters have benefitted from the fact that virtually all of Israel's trade with the U.S. is based on reciprocity. Generally, whenever Israel receives a concession from the U.S., it provides one in return. At the inception of the GSP program in 1976, Israel was asked to give, and we did give, concessions to U.S. exports as a quid pro quo for participation in the program. Indeed, I believe Israel was the only country to give such concessions. U.S. exporters have benefitted from these concessions, and we believe it would be inequitable now to eliminate Israel's preferences.

Having explained why we in Israel believe graduation of Israel is inappropriate, let me now turn to a few improvements we would like to see in the new, revised GSP.

First, we would hope that more discretion might be given to the President to waive, perhaps in conjunction with the Secretaries of State and Commerce, the competitive-need limits under certain circumstances. Often a situation will arise where a country will lose GSP benefits for a product, not because a country has become competitive, but because of unusual world occurrences. Let me give an example: Israel is an exporter of licorice extract. over most of the last several years. the major exporter of licorice extract has been, not Israel, but Iran. As a result of the economic distortions that occurred in that country in recent years, however, Iran's export of licorice extract—and, of course, most other products—came to a standstill. Israel as a consequence soon had more than 50% of the U.S. import market for licorice extract—not as result of Israel's increasing exports but because of the decline of Iran's exports. Israel lost GSP benefits. The next year Israel's licorice extract exports dropped substantially.

If the President had had greater discretion to waive the competitive-need limits, he could have taken into account the distortions resulting from the occurrences in Iran. And Israel would not have been removed from the GSP for licorice extract.

There are, of course, other examples where a waiver might be reasonable, for example, where raw material prices increase significantly or where one product in a basket category is extremely high priced. More discretion to waive the limits would certainly seem warranted in such circumstances, and we would hope the President would be given such waiver authority in any revised GSP.

We would also hope to see more automatic redesignation for products that have lost benefits as a result of the competitive need limit. As I noted, Israel's rope chain jewelry has fallen to 1% of the U.S. market. Yet, this product has not been—and apparently will not be—redesignated. Another example is a product called ethoxyquin. Israel lost benefits for the product because it had over 50% of all imports. This was before the de minimis provision was added to the law. Currently, Israel's exports to the U.S. of ethoxyquin are in the neighborhood of $200,000 annually—clearly de minimis; however, the product has not been redesignated. To us this seems unreasonable.

Finally, we would like to see a provision permitting U.S. raw materials and components to be taken into account both for the 35% added-value, country of origin rule and the competitive-need limit. Israel is a major importer of U.S components, which it fabricates and re-exports to the United States. It seems senseless to not include such components in the country of origin rule, especially when such purchases by Israel directly benefit the U.S. economy.

Likewise, U.S. components should be taken into account in determining whether or not a product has exceeded the competitive-need limit. For example, if a country has $60 million worth of imports of a product but $15 million of that amount is U.S. components, that product should not be considered as exceeding the competitive-need limit. Otherwise, both the foreign exporters and the U.S. exporters are senselessly penalized.

STATEMENT OF EHUD POLONSKY, ASSISTANT ECONOMIC MINISTER, EMBASSY OF ISRAEL

I am Ehud Polonsky, Assistant Economic Minister of the Embassy of Israel. I am writing to voice my support for renewal of the GSP, in general, and continued benefits for Israel's exports, in particular.

The United States Trade Representative is proposing revising the GSP to incorporate tiered competitive-need limits in order to graduate out of the GSP status countries deemed no longer in need of duty-free benefits. Under this approach, no country would be graduated outright from GSP eligibility; however, advanced developing countries would have reduced competitive-need limits. Negotiation for higher limits may also be permitted; that is, a country could give concessions on U.S. exports in order to gain higher limits on all or selected products. This negotiating approach would introduce an element of reciprocity into the GSP scheme.

If a tiered competitive-need approach is implemented, Israel ought to maintain the current limits applicable to it or be accorded even higher limits for the following reasons:

(a) Because of the nature of Israel's economy and its populace, the types of products produced by Israel tend to be high-technology items. For example, Israel currently ships to the U.S. under the GSP CT scanners, items carrying a price tag of approximately $1 million per unit. These items are an important source of foreign exchange revenue for Israel and are also of significant benefit to the American health care consumer. If the competitive-need limit were reduced, Israel would inevitably exceed such lowered limits for these costly high-tech items. Indeed, this has already occurred even under the current limits: surgical laser equipment from Israel was recently eliminated from GSP eligibility as a result of exceeding the competitive-need limit. Removal under these circumstances benefits no one; U.S. consumers are forced to bear the higher, duty-paid price while no other GSP-eligible country is capable of increasing exports of such high-tech products at Israel's expense.

(b) Israel's current position as the seventh largest beneficiary under the GSP and its GNP per capita, do not reflect the true picture. Israel's successes under the GSP program are a result of the country's dire need for foreign exchange, not of the country's graduation from developing to developed status. And, the country's per capita GNP, viewed alone, presents a misleading indicator of Israel's current economic conditions. To understand Israel's situation, one must look to other economic

data. The following data indicate that Israel's economy is unique. with no other country even approaching it:

The external debt is greater than the GNP.

The debt per capita is the highest in the world.

With Israel required to maintain a constant state of military preparedness, about 40 percent or more of the GNP is committed to defense and most of the military procurement must be financed with foreign exchange acquired through exports.

Israel's current account deficit is about 4 and one half billion dollars, unduly high for a country of only 3.8 million people. And, the economy has deteriorated even further in the last few years as a result of increased imports and decreased exports.

Israel's neighbor-country markets are closed to it.

As a result of Arab boycotts, Israel has limited access to raw materials, which adds to the cost of such materials. These last two points make Israel almost totally dependent on trade with the United States and other developed nations.

In view of Israel's unique economic situation, reduction in the competitive-need limits would clearly impose added, undue hardships, which would make it exceedingly difficult to earn the foreign exchange necessary to ameliorate the country's current difficulties.

(c) Israel has already made considerable concessions to gain GSP benefits. When Israel received preferential treatment under the GSP, it gave concessions to the United States, significantly reducing duties on 132 items of interest to United States exporters. In 1981, Israel's imports from the United States of these 132 articles amounted to $363.7 million, more than the total value of all of Israel's exports to the United States that received GSP benefits in that year.

Israel was the only country to give such concessions in order to gain GSP benefits. To reduce Israel's competitive-need limit or to require Israel to give further concessions in order to maintain current limits would contravene the understanding reached in 1975 between the United States and Israel when Israel was afforded GSP benefits. If reciprocity in the GSP is required, Israel has already reciprocated.

(d) Finally, reducing Israel's GSP benefit will send the wrong political signal to other nations. Including Israel in the graduated group will be viewed by other nations as penalizing Israel at a time when the interests of the United States are directly the opposite.

Moreover, Israel enjoys GSP status with Australia, Japan and Canada. Including Israel in any graduated group will impede Israel's effort to maintain its developing country status vis-a-vis these and other developed countries.

CONCLUSION

The nature of Israel's exports under the GSP; the difficult economic conditions of the country; the fact that, in return for GSP benefits, Israel has already given concessions of considerable benefit to the United States; and the need not to send the wrong political signals at this time, require that Israel maintain the competitive-need limits currently applicable to it or be granted even higher limits in the event tiered competitive-need limits are added to the GSP program.

STATEMENT OF ABRAHAM ROSENTAL, CONSUL AND TRADE COMMISSIONER TO THE U.S., GOVERNMENT OF ISRAEL TRADE CENTER

I am Abraham Rosental, Consul and Trade Commissioner to the United States for the Government of Israel Trade Center. I am writing to stress Israel's support for continuation of the GSP program, to emphasize to you that Israel has need of continued GSP benefits, and to share my thoughts on how the program might be improved to benefit all developing countries.

As far as Israel is concerned, the GSP program has been of definite assistance to our exporters. Israel's exports have continued to grow under the program to the point where Israel exported $407 million worth of GSP products to the United States in 1982. The mix of products exported to the United States under the GSP from Israel has also been considerable, running from simple agricultural products such as melons to highly sophisticated medical devices such as CT scanners and surgical laser apparatus.

The ability to export these products has helped Israel to reduce to a degree its balance of payments deficit and to absorb the numerous immigrants that have come to Israel since estalishment of the State. We are thus very enthusiastic about the program. That we are enthusiastic may be seen from our continued participation in the annual review procedures. Israel's exporters have participated in every annual review since the inception of the program.

I am aware that there is consideration being given to reducing certain countries' benefits under the program. I am hopeful that such reductions will not affect Israel. While it is true that Israel has a high GNP per capita and is seventh in terms of utilization of the GSP program, I do not believe—and I hope this subcommittee and the Congress will agree—that Israel should be a candidate for reduced benefits. Clearly the amount of utilization of the program is one of the least valid reasons for penalizing a country. So too, the per capita GNP of a country is only one out of many indicators of a country's level of development.

With respect to Israel specifically, it is not unfair or incorrect to say that Israel is unique. There is no other country in the world where upwards of 40 percent of the GNP is committed to defense needs and where inflation annually runs at or above 100 percent. The country's balance of payments deficit is considerably out of line for a country of less than 4 million inhabitants, as is the overall current account deficit, which now stands at over $4 billion.

Israel also has the highest debt per capita of any nation in the world. And has historically run a substantial trade deficit. The trade deficit with the United States alone in 1981 was over $400 million.

Israel is also the only developing country, either on or off the GSP, having closed neighboring country markets. While virtually all other developing countries can sell to their neighbors, Israel is forced to export considerable distances, either to Europe or to the United States. This, of course, increases the average selling price of all of Israel's exports and makes Israel that much less competitive in world markets.

Israel also has no major natural resources on which to build its economy. With the return of the Sinai oil fields following the Camp David peace accords, Israel gave up all of its petroleum producing potential.

In short, Israel, notwithstanding per capita GNP or share of the GSP, is not an appropriate target for reduced benefits. Merely because a country is utilizing the program or has a high per capita GNP, does not make that country competitive with developed country exporters. This may be seen from our exporters' experience with gold rope chain jewelry. In 1980, when Israel had GSP benefits for this jewelry, Israel shipped over $4 million worth of gold rope chain to the United States. In that same year, total imports under the category were slightly less than $8 million. Accordingly, Israel lost GSP benefits for this item for exceeding the 50 percent competitive-need limit. In 1982, the first full year of no GSP benefits for gold rope chain from Israel, imports from Israel dropped to about $200,000 out of total imports of over $14 million. That is, in 1982 Israel's share dropped to about 1 percent of all gold rope chain jewelry imports.

Hence, the assumption that Israel was competitive in the category and could compete without GSP benefits was proved incorrect. Israel has literally been driven out of the gold rope chain market because, without GSP benefits, it cannot compete with other GSP-eligible countries, or with Italy, which although ineligible for GSP benefits, has the comparative advantage of hundreds of years of gold jewelry artisanry. While Israel's exports of gold rope chain have declined to $200,000, Italy's sales of gold rope chain in the United States market have grown since 1980 by over $1 million.

In sum, the gold rope chain experience proves that Israel is not necessarily competitive and therefore a candidate for reduced benefits merely because it has a high per capita GNP or because it has utilized the program to higher percentage than have some other GSP beneficiaries.

I want to also point out that we in Israel do not believe that U.S industries are being hurt in any way from GSP benefits for Israel's products. If Israel were not exporting its products to the United States under the GSP, clearly the slack would be made up by developed country exporters. This is especially true since Israel is not producing folklore type articles but rather articles that are more sophisticated. For example, one company, Elscint, exports under the GSP CT scanners and gamma cameras that compete directly with Siemens, a West German producer of medical equipment. And just last year an Administrative Law Judge of the United States International Trade Commission found that Elscint's CT scanners and gamma cameras are causing no injury to the U.S. industry.

The GSP also benefits the United States by allowing Israel to accumulate foreign exchange. It is no secret that Israel is a major beneficiary of U.S. aid. To the extent that Israel can accumulate dollars through trade not aid, the U.S economy is benefitted. Moreover, many of these dollars are returned to the United States for purchase of U.S. agricultural and manufactured goods. For example, Continental Grain sells Israel substantial amounts of grain which are paid for in dollars—some of which dollars are generated by GSP exports.

Finally, the U.S. economy has benefitted because many of the products produced by Israel and exported to the United States help to reduce consumer costs. I already mentioned Elscint. Elscint's CT scanner, which may cost more than $1 million, would carry a duty of over $20,000 if it were not for the GSP. Another of our exporters, Pollok, sells other types of medical equipment to the U.S. also at reduced costs because of the GSP. This savings in duty has directly benefitted the United States health care consumer by keeping the cost of CT scanners and other types of equipment down, at a time when health care costs are increasing in the U.S. at a rate well above the overall inflation rate.

For all of these reasons, we in Israel are hopeful that the GSP will continue, that Israel will continue as a beneficiary of the program, and that United States industries and consumers will realize that trade is a two way street and that not only have developing countries such as Israel benefitted from the GSP, but that the U.S. economy has benefitted as well.

Because we in Israel believe that the United States will see the wisdom of continuing the GSP program, let me now mention a few ways that we believe the program might be improved:

First, we would like to see more discretion given to the President to waive the competitive-need limits under the appropriate circumstances. It would seem that such discretion is warranted, given the many unique occurrences that militate against a strict, automatic competitive-need limit. I have already mentioned gold jewelry. One of the reasons that Israel's export's of gold jewelry grew so quickly, was that gold, the raw material for jewelry, increased in price more than twofold in less than four years. As a result, Israel petitioned the USTR to subdivide the broad basket category for gold jewelry, lest Israel exceed the dollar value competitive-need limit. Unfortunately, as a result of subdividing the categories, Israel exceeded the 50-percent limit for one narrow category. Had the President had the discretion originally to waive the competitive-need limit in the face of the unprecedented increase in gold prices, Israel would probably still have benefits for all gold jewelry products.

Another example is licorice extract. Israel exports licorice extract to the United States. However, the major exporter historically of licorice extract to the United States has been Iran. As a result of the recent turmoil in Iran, however, Iran briefly stopped shipping licorice extract to the United States. This catapulted Israel to over 50-percent of the imports of the product, notwithstanding the fact that Israel's exports did not increase to any degree. If the President had had the discretion to waive the competitive-need limit, certainly he could have taken into account this unique occurrence in Iran and the fact that Israel exceeded the competitive-need limit not because it had become competitive, but only because Iran's exports had come to a complete halt.

Second, we would hope to see more automatic redesignation of items that have exceeded the competitive-need limit in one year but have dropped back to below 50-percent or the dollar value in the next. Currently, it appears that redesignation is often arbitrary and political. Needless to say, our rope chain jewelry which has now dropped to 1 percent of the import market and even less of the U.S. market is a case in point. Another case in point is the chemical ethoxyquin. Ethoxyquin sales by Israel in the U.S. are only $200,000 annually. Israel is virtually the only exporter of the product to the U.S. However, ethoxyquin, removed for exceeding the 50-percent limit before the de minimis provision came into existence, has not been redesignated.

Third, we believe a provision should be added permitting U.S. raw materials and components to be taken into account for the GSP country of origin rules. As I noted, Israel is a major importer of U.S. products. Some of the products are imported as raw materials and components to be fabricated into finished items and reexported to the United States. Since these purchases by Israel directly benefit U.S. producers, we believe that components and raw materials of U.S. origin should be includable in the elements that go to make up the 35-percent added value.

Fourth and finally, we believe U.S. components should also be taken into account in determining whether or not a product has exceeded the competitive-need limit. If a country is over the dollar value or 50 percent competitive-need limit, but many of the components of the product are of U.S. origin, these U.S. origin components should be factored out of the calculation before it is determined that the item has exceeded the competitive-need limit. Not to do this, not only penalizes the exporting country, but also senselessly penalizes those U.S. industries supplying components to Israel.

STATEMENT OF TED WOLSKY, VICE PRESIDENT, ISRAEL PRODUCTS, INC.

I am submitting a written statement to indicate my support for continued GSP benefits for Israel.

Israel Products, Inc. is a U.S. company importing food, confectionary and giftware items from Israel. We have been operating in the United States for over 33 years. We sell only Israeli products through local distributors throughout the United States. Many of the food items we sell are specialty items made kosher for Jewish Americans.

We employ between 10 and 12 individuals in New York. Although we do not employ many workers, we buy from Israeli companies, such as Elite, Osem, Pri Taim and Assis, that employ thousands of workers in Israel. Our annual sales are about US$4 million, the major part of which is GSP items.

As I said, many of our food products are kosher and many of our giftware items are religious in nature. These are specialty items not produced by U.S. companies to any degree. Our imports are thus not competing with U.S. industries and are not taking U.S. jobs.

What our imports are doing is providing for Jewish Americans kosher products they might not otherwise have. These products are already expensive because Israel is not a low wage country and because the product must be shipped over 6,000 miles. The GSP, by eliminating the duty on these products, helps to reduce the cost somewhat. This benefits Jewish Americans, who are also American consumers.

If GSP benefits were lost, there would be no U.S. industry that would be helped. American consumers, however, would be hurt.

In view of these facts, as a U.S. importer, I strongly urge you to continue Israel as a GSP beneficiary.

STATEMENT OF MICHAEL P. DANIELS, COUNSEL, AND THOMAS D. EMRICH, ECONOMIC CONSULTANT, KOREAN TRADERS ASSOCIATION

This statement is submitted on behalf of the Korean Traders Association (KTA), a non-profit organization representing more than 4,000 trading companies in Korea. KTA wishes to express its appreciation for the opportunity to present views on the Administration's proposal to extend the GSP program. KTA would like to submit for the record a detailed analysis of Korea's experience with the GSP program. This study discusses more fully many of the issues raised here.

As a general matter, the United States government must recognize that failure to extend the GSP would be viewed by developing countries as a very serious blow to their efforts to achieve sustained economic growth. KTA believes that the United States must reaffirm its commitment to a trade preference system on a nonreciprocal, nondiscriminatory basis. Any reversal of position in this regard could only be interpreted as a decision by the United States to pursue a more protectionist trade policy.

With regard to Korea itself, there are a number of issues of concern to KTA regarding the Administration's GSP extension legislation. The reduction or elimination of the GSP benefits for Korea will diminish bilateral trade flows with the United States, undermine Korea's efforts toward trade liberalization, complicate efforts to balance external accounts and strain the country's ability to carry forward critical defense obligations.

The existing GSP program has been relatively successful in providing increased trade opportunities between the United States and Korea, while protecting the legitimate interests of U.S. industries. Korea's exports of GSP products have nearly tripled since inception of the program, rising from $591 million in 1976, to $1,720 million in 1982. More than one-third of the 1982 trade was denied GSP duty-free treatment, however, due to competitive need or discretionary graduation.

Progress toward export diversification is apparent from the steady expansion of the number of eligible product categories used by Korea. Diversifing exports is of great importance to Korea. It's largest export sectors, e.g., textiles, apparel, footwear, electronics and steel, which already lie outside the scope of the program as a result of statutory product exclusions, face increasing protectionist pressures in the United States and among developed countries generally. The GSP provides Korea with a basis for diversifying trade into product sectors that are considered less import sensitive in the United States.

Moreover, increased exports through the GSP have translated directly to increased opportunities for Korea to expand purchases of goods and services from the United States. The old axiom that you must export to pay for imports is certainly true in the case of Korea. It is noteworthy that the dollar value of U.S. exports to

Korea rose more rapidly than U.S. imports from Korea between 1976 and 1982. Moreover, the rate of increase in U.S. exports to Korea was more than double than for total U.S. exports to all overseas markets during this period.

A review of the data in Table 1 reveals that the U.S. and Korea have maintained a rough equivalence in their merchandise trade in the years since the GSP was implemented. Korean exports to the U.S. of $5.6 billion in 1982 were nearly matched by U.S. exports to Korea of $5.5 billion. Through the first 10 months of 1983, U.S. imports of $5.9 billion were greater than U.S. exports to Korea of $4.9 billion, reflecting the relatively stronger performance of the U.S. economy.

U.S. exporters have enjoyed a steady expansion in trade with Korea in product areas that are of the greatest long-term importance to this country. Table 2 summarizes the growth in U.S. exports to Korea by major product sector between 1976 and 1982. It is apparent that the largest gains have been in the machinery and transportation sector, where 1982 shipments amounted to over $1.8 billion. This represents an increase of 235 percent in dollar terms since 1976. These products are the mainstay in the U.S. effort to expand the production and export of high technology goods, an area where the U.S. enjoys a favorable competitive position in relation to the rest of the world.

Korea also represents a significant outlet for U.S. agriculture. Exports of farm and forest products doubled between 1976 and 1982, amounting to $1.8 billion in the latter year. Exports of fruits and vegetables have grown steadily, from less than $1 million to more than $12 million in 1982.

More generally, the expansion and diversification of exports is vital to Korea's ability to balance its external accounts. While total exports has increased at a very fast rate over the past decade, imports have increased even faster. Korea's merchandise trade balance is in chronic deficit (Table 3), as is its current trade accounts (Table 4), necessitating a constant increase in exports and financing through inflows of foreign capital. A major share of the annual current account deficit is with the United States (Table 5). Foreign exchange earned through export expansion constitutes not only the primary source of investment needed for continuing development, but also provides the means for purchasing imports.

The inflow of foreign capital has substantially helped to narrow the gap between domestic saving the domestic investment. These financial inflows are being used to finance basic investment in the economy, not the consumption of consumer goods. Korea's foreign exchange borrowings have been utilized efficiently, rather than in support of a consumer buying binge.

At the end of 1983, total foreign debt reached about 40 billion, making Korea the fourth largest debtor country in the world. Projections through the end of the revised Korean economic development plan (i.e., 1981-1986), indicate that foreign debt will rise to $47.4 billion by 1986. Presently, the country's debt service ratio for long-term capital is roughly 15.2 percent and its total debt service ratio is approximately 21 percent (long-term plus short-term capital). In terms of the ratio of foreign debt to GNP, Korea's debt burden is the largest in the world, amounting to 56.4 percent. Compared with other developing countries, however, Korea believes that its debt position remains within manageable levels, but only if it can continue to expand exports.

Finally, in this regard, KTA believes that the U.S. government must consider carefully the relationship between Korea's need for continuing export expansion to support economic growth and its ability to meet mutual defense needs. As a staunch support of the United States in the region, Korea has the strongest military force in Asia. Korea is bound through bilateral treaties with the United States to spend at least 6 percent of the its GNP on national defense. This is an enormous burden, surpassing even that of the United States and well ahead of Japan which spends roughly 1 percent of its GNP for defense purposes. Actual expenditures will continue to rise with the growth in Korean GNP. While a strong national defense is an obvious necessity, increased exports through GSP benefits will certainly make a significant contribution to strengthening Korean's defense posture.

KTA believes that the Administration's proposal to place further limitations on Korea's GSP eligibility threatens to relegate Korea to a form of economic limbo, a state where it is considered neither developed nor developing for purposes of U.S. trade policy. On the one hand, Korea will be denied the full benefits of the GSP accorded to developing countries generally. On the other hand, it is quite apparent that Korea, in being denied its true developmental status, will not be accorded the same treatment as other developed countries in its trade relations with the United States. This is all too apparent, for example, from the U.S. government's continued maintenance and tightening of import quotas against Korean textiles and apparel. There is little prospect that these restraints will be eliminated or even liberalized in

the foreseeable future. Indeed, there is intensifying pressure in the United States to make them even more restrictive. Moreover, Korean industry has been harrassed by a multiplicity of so-called, "unfair trade" actions which have resulted in nagative or minimal margins or penalty duties, but have constitued a serious barrier to trade.

In this regard, there appears to be a mistaken impression among many U.S. officials that Korea is no longer a developing country, or at least one that no longer needs the benefits of the U.S. GSP program. It is true that Korea has emerged as a semi-industrialized country during the past decade. However, it is fair to say that Korea is still a developing country by any accepted standard. Korea's per capita GNP in 1981 amounted to only $1,700 (according to the World Bank), well below that of established industrial economies such as the United States (1981 per capita GNP, $12,820) or that of other eligible beneficiaries such as Singapore ($5,240) and Israel ($5,160).

It is Korea's export growth over the past decade, that has dominated the view from the United States. Korea's high level of manufactured exports to the United States and elsewhere is mistakenly associated with an equally high level of development. Some associate it with a degree of international competitiveness that negates the need for further GSP eligibility.

The actual situation is far different. First, it is simply erroneous to view Korea as primarily an export oriented economy. Korea's imports annually exceed exports. U.S. exports to Korea have grown steadily alongside rising Korean shipments to the United States. This coming March, Korea will dispatch its largest trade mission ever to the United States, representing a major effort on the part of the Korean government and the business community to expand and diversify trade with the U.S. As is apparent from the data in Table 2, the largest growth in Korean purchases from the U.S. has been in the machinery and transportation sector, an area where the U.S. is most interested in expanding trade.

Second, Korea's success in some export product sectors masks continuing competitive problems in many others. Despite its reputation as a strong international competitor, Korea has suffered through a major loss of international competitiveness in recent years. Korea's export industries are being pressured by rising costs, increased competition from lower cost developing countries and a proliferation of trade restraints in industrialized countries. The lack of international competitiveness associated with many GSP products exported by Korea is apparent from the rapid decline in trade from Korea in product categories where duty-free treatment has been lost through competitive need or discretionary graduation. This is well documented in KTA's economic study being submitted for the record.

It is substantiated as well by the USITC's recently published studies on the operation of the U.S. program. (See USITC publication No. 1384, Changes in Imports Trends Resulting From Excluding Selected Imports From Certain Countries From The Generalized System of Preferences, May 1983; and USITC publication No. 1379, An Evaluation of U.S. Imports Under The Generalized System of Preferences, May 1983.)

Analysis of the record developed thus far under the program indicates that Korea's GSP trade has not created or contributed to the difficulties that many lesser-developed beneficiaries face in expanding their trade with the United States. Developed countries, ineligible for the GSP, have dominated total trade in categories covered by the program since its beginning and continue to do so today. Their share of total imports in categories covered by GSP exceeded 71 percent in 1982. Korea's trade accounted for less than three percent of the total. On the basis of trade actually receiving GSP duty-free treatment, Korea's trade accounted for just 1.8 percent of total imports in GSP categories from all suppliers in 1982.

KTA believes that the Administration and the Congress could help improve the overall success of the program by focusing greater attention on the transfer of more GSP trade from developed to developing countries, rather than concentrating exclusively on how to redistribute trade presently held by all beneficiaries. KTA is concerned that trade lost through the denial of GSP benefits to Korea (or any other advanced beneficiaries) will, in all probability, revert to developed countries rather than low-income developing countries.

KTA also believes that the Administration should place greater emphasis on reviewing trade patterns subsequent to loss of eligibility through either competitive need or discretionary graduation to spot obvious inequities and restore eligibility where it is clear that the excluded supplier is not competitive. The Administration's proposal retains the concept of "redesignation" for product categories where trade has fallen below competitive need levels subsequent to the loss of eligibility. However, the Administration now grants redesignation in the case of Korea and other advanced developing countries in only the most extreme circumstances. A continu-

ation of this policy can only damage Korea's interests without adding to fuller participation in the program by the least developed countries. Indeed, the prime beneficiary is often Japan or another GSP ineligible developed country.

Penalizing Korea and the other major beneficiaries through further limitations on eligibility will not remedy problems facing lesser-developed countries. KTA has analyzed carefuly the impact of product exclusions previously imposed on Korea and the other major beneficiaries to determine the amount of trade diverted to lesser-developed beneficiaries. The results are quite clear in establishing that the exclusion of Korea from eligibility through graduation or competitive need has produced few tangible benefits in this regard. It has served to exclude Korea in many products where subsequent trade patterns make it clear that Korea was not competitive internationally. There is no reason to believe that an intensified graduation policy will improve this situation. Indeed, it will only hurt Korea and further diminish prospects for expanding bilateral trade with the United States. These conclusions are well documented in the KTA study.

Finally, the Administration's proposed linkage of market access to GSP eligibility threatens the underpinnings of the program and bilateral trade relations with Korea generally. The United States has been a party to any number of international agreements stating explicitly that beneficiaries should not be required to pay for GSP. This is simply confusing differing trade policy objectives. Reciprocity covers issues going well beyond GSP. Mixing the two will only produce unsatisfactory results for both.

Market access is an important concern to U.S. exporters and a legitimate issue in trade relations. The Korean government has stated that it stands ready to discuss the matter in the context of total bilateral trade between the two countries. Korea has unilaterally initiated a series of reforms aimed at liberalizing barriers to trade.

Beginning in 1978, Korea has expanded the number of individual import categories where licensing and other requirements have been removed. Since 1978 Korea's import liberalization ratio has risen from 54 percent to over 80 percent. This process will continue in the years ahead. In the wake of President Reagan's visit to Korea last November. Korea has agreed to a U.S. government request to liberalize 31 additional products of special interest to U.S. exporters. This action has been taken despite opposition from Korean manufacturers. Moreover, the average tariff rate is not 20.6 percent, down from 22.6 percent in 1983 and is expected to further decline to 16.9 percent by 1988. However, the elimination or reduction of GSP benefits will undermine Korea's efforts to promote its liberalization program at home, a program that it has thus far been pursuing with determination.

To its credit, Korea has come to recognize that its future economic development can best be assured by steadily introducing external competition in the domestic marketplace. The objective over time is to bring Korea's import policies into line with those maintained by the industrialized countries. KTA is convinced that progress toward import liberalization is real and that the mutual benefits to be achieved are gradually coming to be realized by both sides.

Moreover, in considering the issue of reciprocity, the U.S. must remember that it maintains significant barriers to Korea's exports. From KTA's perspective, it appears that the United States is being somewhat disingenuous in its position on this matter. While pushing strongly for liberalized access to foreign markets, particularly in products with advanced technology and in the area of services, it is continuing to erect barriers against trade in lower technology, more labor intensive products of the type where Korea and other developing countries have the capability to expand exports. The United States cannot have it both ways. KTA cannot accept the notion that Korea should ignore U.S. barriers and negotiate solely on the basis of nondiscriminatory treatment in GSP eligibility in exchange for further Korean import liberalization.

TABLE 1.—KOREA-UNITED STATES MERCHANDISE TRADE, 1976–82

[Value in millions of U.S. dollars]

	Korean exports to the United States	Korean imports from the United States	Trade balance
1976	2,440	2,015	425
1977	2,911	2,371	540
1978	3,818	3,160	658
1979	4,102	4,190	(88)

TABLE 1.—KOREA-UNITED STATES MERCHANDISE TRADE, 1976–82—Continued

[Value in millions of U.S. dollars]

	Korean exports to the United States	Korean imports from the United States	Trade balance
1980	4,257	4,685	(428)
1981	5,227	5,116	111
1982	5,637	5,529	108

Source: U.S. Department of Commerce, FT-990.

TABLE 2.—U.S. EXPORTS TO KOREA: VALUE AND DISTRIBUTION BY PRODUCT SECTOR, 1976 AND 1982

[Value in millions of U.S. dollars]

Product sector	1976		1982	
	Value	Distribution	Value	Distribution
Food and live animals	419	20.9	821	14.9
Beverages and tobacco	14	0.7	7	0.1
Crude materials, inedible, excl. fuel	580	28.9	1,214	22.0
Mineral fuels and lubricants	31	1.6	410	7.5
Oils and fats, animal and vegetable	35	1.7	34	0.6
Chemicals and related products	116	5.8	473	8.6
Manufactured goods classified by chief material	53	2.6	311	5.6
Machinery and transport equipment	542	27.0	1,816	32.9
Miscellaneous manufactured articles and special shipments	216	10.8	406	7.3

Source: U.S. Department of Commerce, EM-455.

TABLE 3.—KOREA'S MERCHANDISE TRADE BALANCE

[In million dollars]

	Exports	Imports	Trade balance	In percent	
				Ratio of exports to GNP	Ratio of imports to GNP
1976	7,814	8,405	−5,995	34.5	36.9
1977	10,047	10,523	−477	37.2	37.8
1978	12,711	14,431	−1,781	36.2	39.5
1979	14,705	19,100	−4,390	32.5	40.2
1980	17,214	21,598	−4,384	40.2	50.4
1981	20,702	24,299	−3,597	43.4	51.6
1982 [1]	20,961	23,361	−2,400	NA	NA

[1] Preliminary.

Source: Bank of Korea.

TABLE 4.—KOREAN BALANCE OF PAYMENTS, 1979–82

[At current prices, in millions of U.S. dollars]

	1979	1980	1981	1982 [1]
Current account: (A)	4,151	5,525	−4,615.1	−2,546.1
Trade balance	4,395	4,662	−3,597.4	−2,400.0
Exports	14,705	17,241	20,701.7	20,960.9
Imports	19,100	21,903	24,299.1	23,360.9
Invisible trade balance	195	1,296	−1,518.4	−618.8
Transfers	439	433	500.7	472.7

TABLE 4.—KOREAN BALANCE OF PAYMENTS, 1979–82—Continued

[At current prices, in millions of U.S. dollars]

	1979	1980	1981	1982 [1]
Long-term capital (B)	2,663	1,652	2,841.9	1,352.1
Basic payments position (A + B)	1,488	3,873	−1,773.2	−1,194.0

[1] Preliminary.

Source: Bank of Korea.

TABLE 5.—KOREA-UNITED STATES BALANCE OF PAYMENTS, 1979–82

[At current prices, in millions of U.S. dollars]

	1979	1980	1981	1982
I. Current balance	−354.2	−1,357.6	−1,657.6	−988.8
1. Exports (f.o.b.)	4,136.2	4,429.2	5,456.7	6,077.5
2. Imports (f.o.b.)	4,490.7	4,822.7	5,694.7	5,947.1
Trade balance	−354.5	−393.5	−238.0	130.4
3. Invisible trade receipts	1,652.0	1,820.9	2,016.3	2,779.8
4. Invisible trade payments	1,830.9	3,026.7	3,667.4	4,155.8
(Interests)	(683.1)	(1,323.6)	(1,680.2)	(2,049.0)
Invisible trade	−178.9	−1,205.8	−1,651.1	1,376.0
5. Transfers (net)	179.2	241.7	231.5	246.8
II. Long-term capital	507.3	274.4	883.3	.....
6. Loans and investment (net)	189.8	333.4	662.6	.....
(Amortization)	(242.5)	(240.3)	(229.8)	.....
7. Others (net)	317.5	−59.0	220.7	.....
III. Basic balance (I + II)	153.1	−1,083.2	−774.3	.....

STATEMENT OF DUCK-WOO NAM, CHAIRMAN, KOREAN TRADE ASSOCIATION

The Korean Traders Association (KTA), a non-profit organization representing more than 4,000 trading companies in Korea, is very concerned with the renewal of the United States Generalized System of Preferences. The KTA recognizes that GSP has made a significant contribution to the industrialization of developing nations through expanding trade between developed and developing nations. The KTA believes that the GSP system is the most effective mechanism for promoting the economic progress of the developing countries by means of trade rather than aid, while the United States incurs a very low cost.

In view of the underlying spirit of GSP and the current economic status of Korea, the KTA believes that the United States should extend GSP benefits on a non-discriminatory basis to all developing countries, including Korea.

The KTA strongly urges the United States not to reduce or eliminate GSP benefits for the so-called "advanced" developing countries such as Korea. Experience has shown that such action, in all likelihood, actually would redound to the advantage of the advanced industrial nations instead of benefiting low-income developing nations. Given this consideration, the existing "competitive need" criteria should not be more restrictive for some developing countries than for others. Discretionary graduation should not be applied so as to arbitrarily discriminate between product categories and/or countries. In this regard, the KTA is greatly concerned that U.S.-Korean trade volume would fall as a result of a reduction in competitive need limits and arbitrary graduation.

The U.S. Government has stated that it will consider the degree of market access in Korea with respect to GSP. In this context, it should be emphasized that Korea is still a developing country by almost any standard of economic development. Given this circumstance, it is hardly reasonable to expect Korea, or any other Newly Industrializing Country, to fully and immediately liberalize its import regime. To insist on full "reciprocity" from a developing country like Korea contradicts the very purpose of the GSP program which is the developed countries' commitment to grant the developing countries' exports more favorable access to their market. Across-the-board reciprocity would seriously damage many sectors of the developing countries, thus negating the advantages intended to result from GSP.

Nevertheless, Korea has made significant progress in liberalizing imports, including many of the 32 items (259 specific products in the CCCN 8-digit classification) in which the United States has expressed special interest. Of these specific products, 91 have already been liberalized, and 31 were placed on the automatic approval list on January 1, 1984, several months ahead of the original schedule. The remaining items will be incorporated in the 1985–1988 period. Moreover, the average tariff rate is now 20.6 percent, down from 22.6 percent in 1983 and is expected to further decline to 16.9 percent by 1988. However, the elimination or reduction of GSP benefits would undermine Korea's efforts to promote the liberalization program which Korea has thus far been pursuing with determination.

In implementing GSP, the United States should take into account the beneficiary's balance-of-payments situation, per capita GNP, foreign debt, defence expenditures and the particular sectors of its economy most likely to benefit from GSP. Korea's major export items to the United States, including textiles, steel products, footwear and electronics, have not been accorded GSP benefits, as a result of statutory product exclusions. Hence, the GSP system has mainly benefited small-size Korean industries which are not competitive in international markets. Such small-size firms comprise 97 percent of all mining and manufacturing companies in Korea.

In summary, curtailment of GSP benefits would have an adverse impact on Korea's foreign exchange earnings, and on its long-term ability to finance increasing imports and service foreign debt, thereby diminishing prospects for expanding bilateral trade with the United States.

STATEMENT OF STANLEY NEHMER, PRESIDENT, ECONOMIC CONSULTING SERVICES INC., ON BEHALF OF THE LEATHER PRODUCTS COALITION

My statement is presented on behalf of several members of the Leather Products Coalition, a group of trade associations and labor unions in leather-related industries which I serve as consultant. The organizations include:

Amalgamated Clothing and Textile Workers Union, AFL-CIO.
International Leather Goods, Plastics and Novelty Workers' Union, AFL-CIO.
Luggage and Leather Goods Manufacturers of America, Inc.
United Food and Commercial Workers International Union, AFL-CIO.
Work Glove Manufacturers Association.

The Leather Products Coalition testified at the August 3, 1983 hearing, at which time we requested statutory exemption of leather-related products from GSP because of the great import sensitivity of these products.

Since our testimony, economic conditions have worsened in these industries due to imports and we wish to apprise the Subcommittee of the deteriorating situation. We are, therefore, submitting for the hearing record an updated statement, portraying current conditions in the leather products sector.

The products manufactured by the organizations of the Leather Products Coalition include luggage, handbags, personal leather goods, work gloves, and leather wearing apparel. The Amalgamated Clothing and Textile Workers Union and the United Food and Commercial Workers Union also represent workers in the footwear industry. Footwear, of course, is already statutorily excluded from the GSP. The two shoe unions wish to note that they are pleased that the Administration's GSP renewal legislation correctly continues this statutory exclusion.

These unions and the International Leather Goods, Plastics and Novelty Workers' Union, AFL-CIO also represent workers in other leather-related industries. It should be noted that the three unions which are part of the Leather Products Coalition wish to acknowledge their overall support for the AFL-CIO's legislative position on GSP renewal. The statement which follows contains some additional views and recommends possible alternative changes regarding the operation of the GSP program which reflect these unions' specific concerns about the current GSP program, the Administration's renewal package, and the impact of imports on specific leather-related products manufactured by their members.

We are seriously concerned about the Administration's proposals to renew the GSP. The legislation contains insufficient safeguards for import-sensitive industries, such as the leather-related industries; perhaps most astonishing is the absence of graduation of the advanced developing countries from the GSP. These are two of the important issues which we will address in our statement.

The current GSP program includes a "safeguard" provision to ensure that GSP eligibility is not granted on products which are import-sensitive, particularly where the "anticipated impact" on a domestic industry of designation of an article as eligi-

ble for GSP is negative. Yet, once a product is on the GSP list it is extremely difficult to remove it based on the standard of import-sensitivity.* Since the GSP program began, 256 products valued at $1.3 billion have been added to the GSP list, while only 31 products, valued at $0.6 billion, have been removed.

The statute specifically identifies certain articles as import-sensitive, and therefore ineligible for GSP treatment—textiles and apparel articles subject to textile agreements, watches, and footwear. This designation is a "blanket" one, made with no reservation as to the need to make any further determination regarding which of these articles are import-sensitive. For certain other products—namely electronics, steel, and glass products—a further determination regarding import-sensitivity is still required, despite the specific reference in the statute to these products. Yet, not included in the list of specific import-sensitive products in the relevant section of the statute are other products that may be directly competitive with those so listed or may otherwise be equally import-sensitive. Furthermore, the interpretation by the Administration of the textile product exclusion has been so arbitrary that a case has had to be filed with the Court of International Trade by two of our groups to secure a judicial order to direct the Administration to remove a textile product from the GSP list.

Certainly the import-sensitivity of the five leather-related products not currently statutorily excluded from the GSP is at least as great as for the products enumerated in Section 503(c)(1). Few industries in the United States have been as severely injured at the hands of imports from developing countries as have the leather-related industries. The domestic industries producing luggage, handbags, flat goods, work gloves, and leather wearing apparel have all experienced the adverse effects of massive levels of imports. These import-sensitive industries cannot afford any further loss of market share.

When the original GSP legislation was enacted in early 1975, the import situation of these industries was not nearly as bad as it is today. Between 1975 and 1983, imports of leather-related products increased tremendously at the expense of U.S. production, market share and jobs. Table 1 attached to my testimony provides some selected economic indicators on these industries. These data show that current (1983) import penetration in the leather-related industries range from an estimated 35 percent for personal leather goods to about 85 percent for handbags. Moreover, almost 8,000 jobs have been lost in the leather products industries (excluding footwear) between 1981 and 1983 alone, as the unemployment rate in the leather and leather products sector rose to a staggering 17.8 percent last year. Clearly, imports of leather-related products do not need preferential duty treatment to penetrate the U.S. market. In fact, in the case of all of the industries represented here today, the advanced developing countries account for a majority of imports. Some 85 percent of U.S. handbag imports, 82 percent of luggage imports, 73 percent of leather wearing apparel imports, 60 percent of flat goods imports, and 60 percent of (non-textile) work glove imports, are supplied by the largest three GSP beneficiary countries—Taiwan, Korea, and Hong Kong—alone.

At this point in time, I would hope that the import-sensitivity of these industries would finally be acknowledged by the U.S. Government. All but the leather wearing apparel industry have received technical assistance grants from the U.S. Department of Commerce designed to aid import-impacted industries. Workers in all of the leatner-related industries have received adjustment assistance. The majority of them has not been able to find alternative employment. The leather wearing apparel industry received a unanimous finding of serious injury from imports by the ITC in the 1980 "escape clause" case. Moreover, most of these leather-related products are not on the preference list, a situation consistent with their import-sensitivity. But these industries have had to constantly defend their position over the last nine years when different petitions from foreign entities for GSP treatment were considered by the Executive Branch. This has meant time and money these industries could ill afford.

And most recently, the extreme import-sensitivity of the leather-related industries was recognized in the exclusion that Congress granted leather-related products from

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* A classic example of an import-sensitive article which remained on the preference list for three years before the domestic industry finally prevailed in having it removed is leather wearing apparel. Even though import penetration was high—about 50 percent—and growing, while domestic production and employment were declining, it took three years for the domestic industry to convince the Executive Branch to remove leather wearing apparel from the GSP list. Ironically, a year or so later, leather wearing apparel was the subject of a unanimous finding of serious injury from imports by the U.S. International Trade Commission in an "escape clause" case, thereby meeting that highest threshold of injury.

duty-free treatment under the Caribbean Basin Initiative legislation. The rationale for the CBI exclusion is directly relevant here as well.

I believe that, among the appropriate criteria to be used in determining imort-sensitivity in the context of GSP, are (1) those products considered to be as import sensitive as the products listed by Congress in Section 503(c)(1) of the Trade Act of 1974, and (2) those products where developing countries are already successfully penetrating the U.S. market. Clearly, leather-related products meet both of these criteria.

Notably, in the case of most of the leather-related products, they compete to some degree with products already statutorily excluded from the GSP. The nature of the leather-related products makes them interchangeable with other similar products; imports of particular product types compete across the entire range of products. For example, a leather handbag competes directly with a handbag of textile materials, leather luggage competes with nylon luggage and leather work gloves compete with cotton work gloves. Leather-related products thus often compete directly with similar items manufactured of textile materials. Yet the items manufactured of textile materials are statutorily excluded from the GSP under Section 503(c)(1); leather-related products are not.

If the GSP program is to be reauthorized, import-sensitive industries must be granted adequate protection against duty-free imports. The only adequate safeguard for these leather-related industries is statutory exemption from the GSP, as was done by the House and Senate in the CBI legislation. This exclusion must be similar to the exclusion already contained in Section 503(C)(1(A), (B) or (E). There is no justificatiuon, rationale, or equity in not following the same criteria as Congress followed in the Trade Act of 1974 when it excluded by law several products by name, all of which were import sensitive and some of which were labor-intensive, the same criteria which would apply to these five leather-related products.

The proposals for the renewal of GSP, and, in this context, address the issue of graduation, one of the thorniest areas of the GSP program.

It has long been recognized that, as circumstances change, any special treatment made generally available to developing countries would have to be phased out for individual LDCs as they "graduate", or become more developed. This principle is the cornerstone around which the GSP program was originally constructed.

The Congress eliminated certain countries from coverage under the GSP program in Section 502(b) of the Trade Act of 1974. At the same time, the Congress established in Section 502(c) certain criteria for designation of beneficiary developing countries. These criteria include "the level of ecomomic development of such country, including its per capita gross national product, the living standards of its inhabitants, and any other economic factors which he [the President] deems appropriate; and the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country."

It surely is not in the longer-term interest of U.S. foreign and economic policies to perpetuate a "two-tier trading system" in which the majority of the world's trading nations are permanently classed as LDCs. The global economy is after all a dynamic system, and relative shifts in economic strength among countries will have to be accommodated sooner or later—especially since an increasingly-elaborate network of special trade arrangements, like the GSP, will only intensify the costs of delayed adjustment. We should consider what would have happened, for example, if the GSP system had been in place in 1950, when Japan was generally regarded as a developing country. At what point during the past 30 years would it have been "convenient" to remove Japan from the eligibility list? What would have been the economic and political costs, domestically and internationally, of delaying such action? Similarly, a number of rapidlly-growing developing countries are crossing the transition line to developed status. In fact, certain advanced "developing" countries have now actually overtaken some of the member-states of the European Economic Community in terms of per capita GNP, and others are on the verge of doing so.

When one sees that 64 percent of all GSP duty-free imports in 1982 came from five countries (an increase from the time graduation was first initiated), and 88 percent came from 15 countries (see Tables 2 and 3), one would have to conclude that this concentration of benefits among a relatively small number of countries cannot really be considered an indication of the "success" of the program. At the very best the top five beneficiaries—Taiwan, Korea, Hong Kong, Mexico, and Brazil—have now graduated to the stage of economic development where, having clearly established their competitive position in the U.S. market, they no longer need the benefits of GSP duty-free treatment on their exports to the United States. Moreover, many of the industries in these countries benefiting from GSP are far from "infant"

industries and in many respects are as sophisticated as their U.S. counterparts. This is certainly the case in leather-related products.

Each of these countries has experienced significant increases in per capita GNP since the pre-GSP period. Between 1975 and 1981 per capita GNP of each of the top five countries more than doubled. In 1981 Hong Kong enjoyed a per capita GNP of $5,100, a 189 percent increase from the 1975 level. Korea's per capita tripled in this period, Taiwan's increased by 175 percent, Brazil's by 116 percent, and Mexico's by 113 percent (see Table 4 attached to my statement).

Continued accordance of GSP treatment to these countries should certainly be scrutinized carefully and can no longer be justified by the terms of the statute. It is hurting those lesser developed countries which legitimately can use the help of the GSP program and for which the program was intended. It is also hurting those domestic industries whose firms and workers are shouldering the burdens of according GSP duty-free treatment on products from such countries.

Yet instead of proposing automatic graduation of the most advanced developing countries from the GSP—and thereby ensuring that the GSP benefits are directed toward the less developed countries—the Administration has proposed an entirely different approach.

In fact, one of the most troublesome aspects in the Administration's proposal is the dramatic twist that it has taken in its approach. By altering the focus of the GSP program from one which offers trade preferences to developing countries with little or no strings attached, the Administration has chosen to tie directly GSP eligibility to the degree to which the developing countries open their markets to U.S. exports. I cannot characterize this as anything but a rather cynical approach—the GSP was never intended to be a U.S. export promotion program.

Moreover, I can only assume that the proposal to renew GSP has taken on this new character largely because of the Administration's failure to gain passage of other proposals which would have allowed the President to negotiate tariff reductions in exchange for market access. Legislation to extend the President's residual tariff cutting authority in Section 124 of the 1974 Trade Act met tremendous opposition from U.S. import-sensitive industries and had to be abandoned. Similarly, tariff cutting authority which has been added by the House Ways and Means Committee to H.R. 1571 is meeting with renewed opposition from industry and labor.

The Administration had reportedly planned a North-South negotiating proposal to establish a new column in the Tariff Schedule for the Newly Industrializing Countries (NICs) in order to achieve broader access for U.S. products in NICs' markets. This too was controversial. Instead of these proposals, we now have the Administration's proposed, sustantially revamped, GSP program.

I have examined carefully the Administration's proposal to renew the GSP. I find it disingenuous at best and misleading at worst. I have participated in discussions of GSP extension within the framework of the Industry Sector Advisory Committees, and I have been working closely with the GSP task force of the U.S. Chamber of Commerce. As you know, under the current GSP program and its competitive need limitations, countries are not eligible to receive duty-free treatment on a product for which its exports in the previous calendar year exceeded either a specified dollar amount ($53.3 million for 1982) or accounted for 50 percent or more of total U.S. imports of the product. As amended by the 1979 Trade Act, this competitive need limitation is not binding in cases in which the value of total U.S. imports of a product is de minimis. We had understood the Administration's proposal for GSP renewal would consist of an automatic reduction (i.e., tightening) in the competitive need limitation to $25 million or 25 percent for the advanced developing countries, with the possibility of increasing (i.e., easing) and returning the competitive need limitation to a specific value limit ($53.3 million in 1982) or 50 percent if the countries open their markets to U.S. exports. The leather-related industries considered this an unacceptable proposal.

Yet the proposed legislation goes far beyond this. The legislation recently sent to Congress grants the President the broadest discretion possible in setting the competitive need limitation for developing countries. New subsection 504(c)(2) gives the President authority to waive completely the competitive need limitation if it is in the "national economic interest of the United States," and if the "country has assured the U.S. that it will provide equitable and reasonable access" to their markets. Thus not only can the President waive the new $25 million or 25 percent limit, he can also waive the specific value limit ($53 million in 1982) or 50 percent limit if he so chooses. Furthermore, nothing may happen for two years after enactment, that is the period in which negotiations can take place before the President reduces the competitive need limit, if he chooses to do so. Countries designated as "least de-

veloped," with no further determination, will be exempt from any competitive need limitation.

The Administration's proposal places far too much discretion for the operation of the GSP in the hands of the President. The Administration clearly intends to use GSP as a negotiating tool to persuade developing countries to open their markets in turn for preferential treatment. This arrangement can only be at the expense of U.S. import-sensitive industries, as well as at the expense of the less developing countries most in need of preferential treatment. Indeed, this approach can only enhance the position of the advanced developing countries.

In addition to the issues which I have already addressed, there are also a number of other concerns of the leather-related industries regarding procedural issues and the administration of the GSP program.

First, I want to comment on the petition process itself, primarily with respect to petitions to add products to the GSP list. In 1982, over 500 requests to modify the GSP were received by USTR. From this group, petitions for the addition of some 60 products to the GSP list were accepted for further analysis in the annual product review. Most of these petitions were filed by foreign governments. As you know, the regulations governing the GSP operation require that petitions include some very specific information regarding the relevant foreign and U.S. industries. Yet what we have seen time and time again are petitions by foreign governments which are merely "shopping lists" or "wish lists" of products that they would like added to the preference list. Often the petitions contain little more than the product description and perhaps U.S. import data. Rarely do the petitions demonstrate—or even attempt to demonstrate—that the current duties are a constraint to their exports of these products, nor do they provide any detailed information, as called for in the regulations, on the impact of possible GSP treatment on the operations of firms producing these products. This is in sharp contrast to the requirements imposed upon domestic parties petitioning to have an item removed from the GSP list.

Second, another problem in the procedure to accept petitions relates to what I consider to be the "hunt-and-peck" method sometimes used in determining which petitions to accept. We have seen this occur with respect to handbags, luggage and, most recently, with respect to work gloves. With a long list of items for which foreign governments have petitioned to add to the GSP list, the Trade Policy Staff Committee surveys the U.S. Tariff Schedules and determines that, despite the given import-sensitivity of a U.S. industry, some specific TSUS item within that industry could perhaps be added to the preference list because its import penetration is relatively low compared to other products of the industry. This is what I mean by the "hunt-and-peck" method. However, it is our position that an industry's import sensitivity cannot always be decided on an item by item basis, particularly since items likely compete with other items within a market and since manufacturers likely produce more than one discrete product line. Thus, leather luggage or plastic work gloves may represent relatively stronger segments within highly import sensitive industries, yet to single out these products for duty-free treatment, if granted, may place the entire industry in jeopardy. The one item not on the GSP list may be the only one keeping the industry viable, but that viability could be jeopardized if duty-free entry is accorded that item.

Third, a major procedural problem arises because of what I would call "double jeopardy" situations. Not only is the case heard by the GSP Subcommittee of the Office of the U.S. Trade Representative, but the case is also referred to the International Trade Commission for its advice as to the probable economic effect of GSP designation on relevant U.S. industries and on consumers. This process involves two sets of hearings which basically entail virtually identical testimonies on the part of witnesses. The time and expense involved in two hearings—the "double jeopardy"*—on the same subject can be an excessive burden to many firms and industries involved in a GSP petition. In the case of a small industry, with many small firms, such as the leather-related industries, this is particularly burdensome.

Fourth, the absence of a published evaluation or report on a case is another procedural deficiency. The result of the Trade Policy Staff Committee's consideration of a petition is no more than a Federal Register notification which states only whether or not an article is added to or deleted from the preference list. In some cases, a

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*As the system has evolved in recent years this might be termed more properly "triple jeopardy." During the period in which the GSP Subcommittee is considering whether or not to accept petitions to add products to the GSP list, it is often necessary for a domestic industry to begin its efforts in oppositon to the petition. If the domestic industry's efforts to prevent the acceptance of a petition fail, the industry then readies itself for the two hearing termed "double jeopardy."

petitioner is sent a letter advising him briefly of the rationale for a negative conclusion reached by the Trade Policy Staff Committee. Such reports are very sketchy and only provide the bare bones of the conclusions in the case. Moreover, the ITC reports to the TPSC in such cases are not made publicly available, since they are considered advisory in nature. Thus, the petitioner and other interested parties are offered minimal information regarding the basis of the decision with respect to the petition to modify the GSP.

Finally, I must raise an important point about GSP which is not strictly procedural but which is undermining the effectiveness of the Subsidies Code negotiated during the MTN. The principal advantage which foreign countries derive from joining that Code is the requirement for an injury test in any countervailing duty investigation involving signatory countries' exports to the U.S. However, because the Trade Act of 1974 requires an injury test in any case involving duty-free imports, a major incentive is lacking for developing countries—to the extent their exports to the U.S. come in under duty-free GSP treatment—to adhere to the Subsidies Code. GSP treatment is neither a permanent concession nor a bound tariff obligation on the part of the United States. It should thus be a fairly straightforward matter to amend the legislation so that, for the purposes of requiring proof of injury in countervailing duty investigations, a distinction is drawn between MFN or "statutory" duty-free treatment and that which is accorded certain countries, temporarily, under the GSP program.

In conclusion, the organizations represented here today feel that it is essential that action be taken on at least two fronts in the renewal of GSP. Most important is an exclusion for luggage, handbags, flat goods, work gloves, and leather wearing apparel from the GSP. Additionally, even if this exclusion is granted, we believe that the Administration's proposal to relate preferential treatment to market access is inappropriate in the context of the GSP and should be abandoned. It is our recommendation that an alternative approach of graduating the most advanced developing countries from the GSP be adopted. On the issue of procedures, solutions to the administrative problems which I have outlined in my testimony should be readily apparent.

TABLE 1.—SELECTED ECONOMIC INDICATORS OF THE HEALTH OF THE LEATHER-RELATED INDUSTRIES

	Number of employees				
	Nonrubber footwear	Luggage	Personal leather goods and handbags	Leather apparel	Leather work gloves
1977	156,900	17,300	33,100	6,700	5,500
1980	143,600	16,300	30,000	8,000	6,100
1981	146,400	15,200	30,600	7,500	5,700
1982	136,800	14,000	28,200	NA	NA
1983 [1]	132,000	13,100	26,300	6,000	5,000

[1] Estimated.

TABLE 1A.—SELECTED ECONOMIC INDICATORS OF THE HEALTH OF THE LEATHER-RELATED INDUSTRIES

	Nonrubber footwear (millions of pairs)	Million of dollars		Handbags (million units)	Leather apparel (millions of dollars)	Leather work gloves (thousand dozen pairs)
		Luggage	Personal leather goods			
Production/shipments:						
1977	418.4	585.0	369.0	55.8	211.0	3,710
1980	386.3	808.0	426.0	47.9	247.0	2,732
1981	372.0	740.0	442.0	46.5	248.0	2,692
1982	342.4	[1] 683.0	[1] 415.0	38.8	[1] 233.0	2,354
1983 [1]	325.0	651.0	398.0	NA	221.0	2,165
Imports:						
1977	368.1	118.0	44.0	207.1	220.4	2,090
1980	365.7	243.2	71.9	350.6	170.9	3,175

TABLE 1A.—SELECTED ECONOMIC INDICATORS OF THE HEALTH OF THE LEATHER-RELATED INDUSTRIES—Continued

	Nonrubber footwear (millions of pairs)	Million of dollars		Handbags (million units)	Leather apparel (millions of dollars)	Leather work gloves (thousand dozen pairs)
		Luggage	Personal leather goods			
1981	375.4	291.9	84.1	406.2	207.1	3,028
1982	479.5	334.8	87.5	409.6	252.0	3,091
1983 [1]	580.0	390.0	102.0	460.0	260.0	3,400
Import penetration [2] (percent):						
1977	47	NA	NA	63	51	37
1980	50	NA	NA	77	42	54
1981	51	[1] 40	[1] 30	81	47	53
1982	59	NA	NA	84	56	57
1983 [1]	64	45	35	85	59	61

[1] Estimated.
[2] For the luggage and personal leather goods industries, where import and domestic production data are available only in terms of value, import penetration has been estimated.

NA. Not available.

Source: Economic Consulting Services Inc.; based on U.S. Department of Commerce, International Trade Commission and Bureau of Labor Statistics data.

TABLE 2.—SHARE OF THE FIVE MAJOR GSP BENEFICIARIES IN TOTAL GSP DUTY-FREE IMPORTS, 1976–82

[In million dollars]

	1976	1977	1978	1979	1980	1981	1982
All beneficiaries	3,160.3	3,838.0	5,204.2	6,280.0	7,327.7	8,395.5	8,426.0
Percent	100	100	100	100	100	100	100
Major five beneficiaries	1,870.2	2,641.2	3,544.9	4,191.6	4,366.2	5,058.0	5,380.0
Percent	59	69	68	67	60	60	64
Taiwan	728.0	911.6	1,433.4	1,720.9	1,835.4	2,224.9	2,333.0
Percent	23	24	28	27	25	26	28
Hong Kong	346.9	486.0	537.5	629.3	803.5	795.4	795.0
Percent	11	13	10	10	11	9	9
Korea	327.5	531.5	647.6	749.9	775.8	890.0	1,089.0
Percent	10	14	12	12	11	11	13
Mexico	253.1	368.3	458.3	546.0	509.2	633.0	599.0
Percent	8	9	9	9	7	8	7
Brazil	214.7	343.8	468.1	545.5	442.3	514.6	564.0
Percent	7	9	9	9	6	6	7
All others	1,290.1	1,236.8	1,659.3	2,088.4	2,961.5	3,337.5	3,046.0
Percent	41	31	32	33	40	40	36

Source: Office of the U.S. Trade Representative.

TABLE 3.—SHARE OF MAJOR GSP BENEFICIARIES IN TOTAL GSP DUTY-FREE IMPORTS, 1982

	Million dollars	Percent of total
All beneficiaries	8,426	100.0
Taiwan	2,333	27.7
Korea	1,089	12.9
Hong Kong	795	9.4
Mexico	599	7.1
Brazil	564	6.7
Subtotal, major five beneficiaries	5,380	63.8
Singapore	429	5.1

TABLE 3.—SHARE OF MAJOR GSP BENEFICIARIES IN TOTAL GSP DUTY-FREE IMPORTS, 1982—Continued

	Million dollars	Percent of total
Israel	407	4.8
India	188	2.2
Yugoslavia	179	2.1
Argentina	173	2.1
Thailand	162	1.9
Chile	150	1.8
Philippines	137	1.6
Peru	104	1.2
Portugal	103	1.2
Subtotal, major 15 beneficiaries	7,412	88.0
All others	1,014	12.0

Source: Office of the U.S. Trade Representative

TABLE 4.—GNP PER CAPITA OF MAJOR BENEFICIARY DEVELOPING COUNTRIES UNDER THE GSP PROGRAM, 1975, 1978, 1980, 1981

[In U.S. Dollars]

	1975	1978	1980	1981	Percent change 1975–81
Taiwan	931	1,710	2,269	2,263	+175.3
Korea	563	1,310	1,490	1,700	+202.0
Hong Kong	1,762	3,340	4,310	5,100	+189.4
Mexico	1,055	1,400	1,980	2,250	+113.3
Brazil	1,028	1,510	2,160	2,220	+116.0
Singapore	2,446	3,260	4,420	5,240	+114.2
Israel	3,974	3,730	4,540	5,160	+29.8
India	140	180	230	260	+85.7
Yugoslavia	1,550	2,100	2,540	2,790	+80.0
Argentina	1,550	2,030	2,590	2,560	+65.2
Thailand	350	530	670	770	+120.0
Chile	990	1,470	2,290	2,560	+158.6
Philippines	380	530	710	790	+107.9
Peru	760	680	1,080	1,170	+53.9
Portugal	1,570	1,940	2,300	2,520	+60.5
Uruguay	1,302	1,790	2,620	2,820	+116.6

Source: World Bank Atlas, various editions.

STATEMENT OF THE RECORDING INDUSTRY ASSOCIATION OF AMERICA, INC.

The comments are submitted by the Recording Industry Association of America (RIAA), a trade association whose member companies create and market approximately 85 percent of the prerecorded discs and tapes that are sold in the United States.

Our companies also create a substantial portion of the music that is listened to and enjoyed in other nations all around the world. Unfortunately, however, we sell or earn licensing revenues in just a small portion of these international markets. This is because, increasingly, our recordings are being manufactured and sold by pirates and counterfeiters, for their own profit, and without the payment of any compensation to the American artists and companies who created the recordings they exploit. Moreover, they do this with the tacit approval of their governments.

Many of the countries best known for commercial record piracy are beneficiaries of the legislation this Subcommittee is considering, the Generalized System of Preferences (GSP). In other words, the very countries to which we are extending substantial and significant preferential trade benefits are simultaneously denying to

American creators and copyright owners the legal rights and enforcement necessary to protect their intellectual property.

We ask Congress' help in putting an end to this situation. Specifically, we urge Congress to adopt amendments to the Generalized System of Preferences that would expressly condition the grant of GSP beneficiary status on the provision by each beneficiary of meaningful protection for U.S. intellectual property rights.

Such specific amendments are necessary as a clear Congressional confirmation of the Administration's welcome position that it will consider the level of protection afforded to intellectual property by developing nations as one factor in GSP eligibility decisions.* To be sure, the American record industry applauds the Administration's acknowledgement that preferential trading status under the GSP should depend in part upon the protection of American intellectual property. But the omission of this critical consideration from the express statutory decision criteria of the Administration's proposed legislation (presently embodied in S. 1718) renders the legislation seriously inadequate for two fundamental reasons.

First, the Administration bill is a ten-year renewal of the GSP program. The willingness of the present Administration to take into acount the protection of intellectual property in its GSP determinations by no means ensures that future Administrations will do the same.

Second, and even more important, the protection of American intellectual property is a need that demands express Congressional recognition. The importance of intellectual property to the competitive position of U.S. producers in world markets cannot be overstated, and Congress should put foreign governments on clear notice that their failure to respect intellectual property rights may result in revocation of their preferential trading status. Nonbinding interpretations of statutory language by the Executive Branch—however well-intentioned—will not suffice for this purpose.

For these reasons, the legislation to renew the GSP should incorporate an express statutory requirement that the President consider the protection afforded by foreign nations to intellectual property in making his GSP eligibility determinations. It should also require periodic reports to the Congress on the progress of GSP beneficiary nations toward the goal of effective protection for all forms of intellectual property.

RECORD PIRACY AND COUNTERFEITING IN THE DEVELOPING COUNTRIES

American recording companies export their creative products in two ways: by licensing the right to reproduce and distribute their recordings overseas and, to some extent, by directly exporting prerecorded discs and tapes. Unfortunately, both licensing and direct export revenues are being substantially and rapidly eroded by record pirates and counterfeiters who openly reproduce American records and tapes without the authorization of, or the payment of compensation to, the creators and copyright owners of these recordings. The International Federation of Phonogram and Videogram Producers (IFPI), the international association of recording industry associations, estimates that the world market for such illicit recordings was approximately $515 million in 1982, of which about half probably represents unauthorized sales of recordings originally created and owned by United States recording companies and artists.

The problem of record piracy and counterfeiting is especially acute in the developing countries of Asia, Africa and Latin America. In those regions, vast number of American sound recordings, typically in the form of tape cassettes, are duplicated and sold in total disregard for applicable principles of copyright protection.

As a result, U.S. sales and licensing revenues in many developing countries are substantially displaced. This problem is compounded by the export of pirated and counterfeit recordings from the developing countries to other parts of the world.

Attached to these comments is a survey of piracy and counterfeiting throughout the developing nations that RIAA prepared for the International Trade Commission. To highlight the severity of the problem, however, consider the following examples.

In Singapore, approximately 90 percent of all sound recordings manufactured or sold in 1982 were pirated or counterfeit. Counterfeiters and pirates in Singapore exported about 70 million recordings through the world in 1982, and an additional 15

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* The Administration interprets "equitable and reasonable access to the markets" of developing countries—which is a consideration pertinent to eligibility decisions under Sections 502 and 504 of the proposed legislation—as implicitly requiring consideration of the protection that developing countries afford to intellectual property. See Congressional Record, August 1, 1983, at S. 11279.

million unauthorized recordings were produced for domestic use. A substantial proportion of these recordings were of American origin.

Record piracy and counterfeiting is also extensive in India. In 1982, approximately 95 percent of India's record market was supplied by counterfeiters and pirates. Total sales of unauthorized tapes and records exceeded $77 million.

Some of the other developing nations where unauthorized recordings have a substantial share of the domestic market include Taiwan (65 percent of the tape market), the Philippines (40 percent of the market), Portugal (70 percent of the tape market), Korea (25 percent of the tape market), Thailand (10 percent of the tape market), Peru (70 percent of the tape market), Chile (50 percent of the tape market), and Mexico (40 percent of the tape market). As this illustrative list suggests, pirates and counterfeiters pervade the developing world, and as is demonstrated in the Table on page 8, pirate activity is particularly intense in many of the nations that are leading beneficiaries of the GSP program.

The fundamental reason for piracy and counterfeiting in developing nations is the absence of effective legal mechanisms for the protection of copyright holders. In some countries, the law provides no copyright protection whatsoever for sound recordings and other important forms of intellectual property. In other countries, copyright protection exists, but American nationals have no effective right of action and the foreign government is unable or unwilling to enforce the law itself. In every developing nation that tolerates pirates and counterfeiters, however, one common element exists: counterfeiters and pirates—who often have considerable political clout—benefit from the absence of effective copyright protection, and their governments to date have had little incentive to remedy the problem.

The time has come for the United States to use its trade laws to provide an incentive for developing nations to afford adequate protection for the intellectual property rights of Americans.

COPYRIGHT PROTECTION AND THE GENERALIZED SYSTEM OF PREFERENCES

The Generalized System of Preferences provides substantial economic benefits to the developing countries. In 1982, GSP-eligible imports exceeded $17 billion, and actual duty-free imports under the GSP program amounted to over $8.4 billion.

Listed in the Table on the following page are each of the nations that were principal beneficiaries of GSP in 1982 for which we have market share data on record piracy.

PRINCIPAL BENEFICIARIES [1] OF GSP (1982)

Country	Pirate share of record and tape market (percent)	GSP imports [2] as percentage of—	
		Total GSP imports	Total imports from country
Taiwan	[3] 65	27.7	26.2
Korea	[3] 25	12.9	19.3
Mexico	[3] 40	7.1	3.9
Singapore	90	5.1	19.6
India	95	2.2	13.6
Thailand	[3] 10	1.9	18.3
Chile	[3] 50	1.8	22.5
Phillippines	40	1.6	7.6
Peru	[3] 70	1.2	9.5
Portugal	[3] 70	1.2	36.4

[1] As measured by country's share of total ... -free imports under GSP.
[2] Percentages are calculated using dollar value of actual duty-free imports under GSP.
[3] Data for tape market only.

Data Sources: IFPI, U.S. Bureau of the Census, Office of the U.S. Trade Representative.

The foregoing Table demonstrates that many of the benefits of the GSP program inure to nations where record piracy and counterfeiting are rampant, and that the same countries to which the United States is extending preferential trade benefits are freely expropriating our intellectual property. They copy our creative works and sell them within their own borders, displacing any prospect for sales by American producers. Even worse, they export their unauthorized copies of our creative works to other countries, further displacing sales of our legitimate products. This is fundamentally unfair.

It seems only reasonable to expect that, in return for the substantial benefits that the GSP program confers on developing countries, their governments should be required to protect the intellectual property rights of U.S. copyright owners. GSP represents an effort by the United States to help developing countries expand the industrial base that is vital to their economies. All we seek in return is an assurance of protection for the intellectual property that is vital to our economy.

The protection of intellectual property is essential not only for the record industry, but for every other segment of the American music industry that depends on the sale of records—publishers, songwriters, musicians, recording artists, and the tens of thousands of workers involved in the creation and dissemination of music. Indeed, there can be no doubt that intellectual property of every kind is of increasing importance to the U.S. economy and the competitive posture of the United States in international trade. As other witnesses before this Subcommittee will testify, protection of this property is vital for every industry in which patents, trademarks and copyrights are important.

RIAA respectfully submits, therefore, that Congress should condition GSP beneficiary status for developing nations on meaningful and effective protection for the intellectual property rights of U.S. producers. The GSP legislation should explicitly require the President to assess the adequacy of such protection in his decisions regarding GSP beneficiary status, and should require denial of such status where the lack of protection is egregious. It should also require Presidential reports to the Congress—perhaps biennially—on the progress of GSP beneficiaries toward the elimination of counterfeiting and piracy for all forms of intellectual property.

As to sound recordings, such legislation would stimulate many developing nations to enact or to enforce antipiracy and anit-counterfeiting laws. Significant proposals for reform are already under consideration in Taiwan and in the Philippines, and the government of Singapore is in the process of drafting new copyright legislation. An intellectual property amendment to the GSP legislation would send a timely message to these governments encouraging the passage of new and effective copyright measures. It would encourage other nations to follow suit, and would provide an incentive for vigorous enforcement of copyright laws in all developing countries.

The economic burden of copyright enforcement on the developing countries would be minimal. In fact, the absence of effective copyright protection in the developing countries discourages foreign investment by recording companies, publishers, and other corporations whose revenues depend significantly on the protection of copyrights. And the absence of effective copyright protection for domestic record companies, musicians and songwriters in such countries destroys the incentive for the development of local talent.

The force of these arguments is inescapable. Indeed, Congress had already considered the intellectual property issue in a similar context—the Caribbean Basin Initiative (CBI)—and resolved the issue much the way that we advocate here. In the CBI legislation (Public Law 98-67, August 5, 1983), Congress has provided in Section 212(b) that beneficiary status must be denied to a country that "has taken steps to repudiate or nullify . . . any patent, trademark or intellectual property" of United States citizens or corporations if the effect of such action is to "nationalize, expropriate, or otherwise seize ownership" of such property. Moreover, in Section 212(c), Congress expressly requires the President to consider intellectual property issues in his decisions on whether to confer beneficiary status on individual nations:

"In determining whether to designate any country a beneficiary country under this title, the President shall take into account— . . .

(9) the extent to which such country provides under its law adequate and effective means for foreign nationals to secure, exercise, and enforce exclusive rights in intellectual property, including patent, trademark, and copyrights;" . . .

The basic approach of the CBI legislation, which is a combination of carefully drafted mandatory and discretionary decision criteria for the President, provides a useful model for intellectual property amendments to the GSP legislation.

CONCLUSION

Record piracy and counterfeiting are serious and growing problems, especially in the developing nations. The record industry is just begining to ascertain the scope and economic implications of these problems.

Moreover, the valuable rights in books, motion pictures, computer software, trademarked products and patented inventions are also subject to increasing erosion by unscrupulous producers in countries that do not recognize or enforce the intellectual property rights that have been so essential to the economic advancement of West-

ern nations. An intellectual property amendment to the GSP legislation would be an important step toward the amelioration of this significant and growing problem.

ATTACHMENT

STATEMENT OF RECORDING INDUSTRY ASSOCIATION OF AMERICA, INC., BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION, SEPTEMBER 19, 1983

INTRODUCTION

This Statement is submitted by the Recording Industry Association of America, Inc. ("RIAA") for use by the U.S. International Trade Commission ("ITC"), in connection with its investigation into the effects of foreign product counterfeiting on U.S. industry. Several of RIAA's member companies have received, and will be responding separately to, the ITC's questionnaire. The purpose of this statement is to provide an industry-wide overview of the impact of illicit foreign copying of domestic sound recordings, and to recommend constructive steps for U.S. government action.

The RIAA is a not-for-profit New York corporation, whose membership includes recording companies which create and market more than 85 percent of the authorized prerecorded records and tapes manufactured and sold in the United States. (See attached list of member companies.) One of RIAA's basic responsibilities is to represent its membership before legislative, judicial and regulatory bodies with respect to federal, state and local legislation and regulations affecting the entire recording industry. The RIAA is intimately acquainted with the problems of foreign record counterfeiting both through its efforts to combat international trade of unauthorized recordings and through its association with the International Federation of Phonogram and Videogram Producers ("IFPI"), a 615-member association of national trade associations and record companies in 69 countries. Through its network of international members, the IFPI continuously collects data relating to the unauthorized duplication and unauthorized sale of sound recordings throughout the world. The statistical data presented herein are provided by the IFPI and its members. (See also attached IFPI 1982 statistical brochure.)

THE NATURE OF THE PROBLEM

The U.S. recording industry faces a dual threat from illicit foreign copying of its domestically created products. In the first place, its overseas sales of domestically created and foreign produced sound recordings are displaced by foreign produced counterfeit disc and prerecorded tapes. Since pre-recorded discs and tapes are usually not shipped in export, the manufacturer of the discs and tapes embodying the U.S. sound recordings generally does not take place within the U.S. Rather, the U.S. master recording is shipped to foreign countries for manufacture of copies for sale there. As a result, most foreign counterfeit recordings which would fall within the definition of "counterfeit goods" set forth in the ITC's Notice of Investigation (in both the sound recording and the trademark or trade name on the packaging are duplicated without consent) actually fall outside the investigation, because the physical manufacturing of the product being counterfeited occurs outside the U.S. Secondly, the overseas market for U.S. recordings is adversely affected by pirate records and tapes, *i.e.*, unauthorized duplications of sound recordings packaged and labelled differently than the legitimate originals. Although pirate recordings do not necessarily involve any unauthorized reproduction of the trademark or trade name on the packaging, and may not, therefore, fall literally within the ITC's definition of "counterfeit goods," they do involve the unauthorized reproduction of copyrighted material and should, in that sense, be considered "counterfeit goods."[1]

Accordingly, this Statement includes data pertaining both to record counterfeiting and to record piracy. There are several reasons why the data on piracy is relevent to this investigation and should be considered by the ITC, along with the data on trademark counterfeiting.

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[1] Under certain circumstances, a musical group's name may be protected as a trademark, so that unauthorized use of the group's name constitutes a trademark infringement. *See In Re Polar Music International AB* (C.A.F.C. Appeal Nos. 83-501 and 83-514, August 3, 1983), reported in 26 *BNA's Patent, Trademark and Copyright Journal* 329 (August 11, 1983) (music group's name held registrable as trademark for sound recordings). Under such circumstances, a piratical recording which bears an unauthorized representation of the group's name would constitute "counterfeit goods" as that term is defined in the ITC's Notice of Investigation.

First, separate figures for pirate and counterfeit records and tapes are not available. Thus, as a practical matter, it would not be possible to exclude the data relating to pirate recordings without excluding the data relating to counterfeit recordings.

Second, the data relating to piracy is relevant to the problem of counterfeiting because pirate records and tapes are the functional equivalent of other counterfeit goods. The product itself—the sound recording—is duplicated without consent and is an exact musical replication of the original legitimate recording. The only part that is not duplicated is the packaging. Since it is the name of the artist and/or the song itself that sells the record, the pirate does not need to duplicate the record company's trade name or trademark on the packaging in order to successfully sell his product to the public in the place of the legitimate product.

Third, foreign piracy and counterfeiting of copyrighted works are often carried on by the same individual or entity, or related businesses. Any efforts to combat the counterfeiters should obviously encompass the pirates as well. Finally, it should be noted that sound recordings are not unique in facing this dual problem of piracy and counterfeiting. Motion pictures, other audiovisual works, books and other copyrighted works are unlawfully duplicated and sold overseas, often without any unauthorized reproduction of a trademark or trade name. The data collected by these other major industries on the effects of foreign piracy and counterfeiting of copyrighted works will provide an important source of additional information for this investigation.

THE EXTENT OF THE PROBLEM

The U.S. sound recording industry suffers the loss of massive revenues as a result of overseas market displacement by counterfeit and pirate products manufactured and sold in foreign markets. Information compiled by IFPI for calendar year 1982 indicates that the total sales of counterfeit and pirate sound recordings manufactured and sold outside the United States reached 210 million units, representing $515 million in illegal sales abroad. Based upon worldwide market shares for different nations' music, it is probable that more than half that total relates to recordings originally created and owned by United States recording companies, performers and other creators. The enormous sales displacement which results from these illicit sales affects not only U.S. based companies, but also their foreign subsidiaries, divisions, joint ventures and licensees. This is because U.S. recording companies manufacture their foreign product on a national or regional basis, and while they provide the original master and artwork negatives for the authorized foreign representatives, the albums themselves are usually manufactured directly by those foreign companies (which are subsidiaries, divisions, joint ventures and/or licensees of the U.S. company).

One basic explanation for the continued growth of foreign product counterfeiting and piracy is that many nations around the world have yet to legislative against record piracy and counterfeiting. In fact, half of the member countries of the United Nations have yet to accept the principle of a reproduction right in sound recordings. In addition, in many countries criminal penalties against these crimes are inadequate and, thus, enforcement and prosecution is marginal.

ASIA/PACIFIC

Looking around the world, some of the biggest problem areas for piracy and counterfeiting are in Asia. Singapore is an excellent example of the magnitude of the problem, where it is estimated that 70 million counterfeit and pirate sound recordings were exported in 1982. This incredible total, plus an additional 15 million counterfeit units produced in Singapore for internal consumption, accounted for 90 percent of all sound recordings manufactured or sold in Singapore last year. A large percentage of the unlawfully duplicated product was U.S. owned. This situation persists despite the energetic efforts of IFPI to combat the problem. During the period between June 1982, to April 1983, 46 raids were carried out and a total of 396,837 cassettes were seized in Singapore. Attached to this statement is a photograph displaying only one each of 250 different counterfeit and pirate cassettes seized and acquired in Singapore this year. They are grouped and identified by the U.S. company which owns the sound recording master. They represent recordings owned by 20 U.S. companies, embodying 505 American artists and 213 individual titles.

IFPI currently has in its possession in Singapore over 650,000 counterfeit cassettes which were seized during raids. Although this is a considerable amount, it represents less than one percent of the estimated illicit export production of Singapore during 1982. Pirate and counterfeit manufacturers and exporters in Singapore have

now retained a special counsel for the sole purpose of defending every counterfeiting and piracy prosecution brought by the government in that nation.

In addition, the 1968 anti-piracy statute, under which prosecutions are brought in Singapore, is poorly drafted and has given rise to many problems. In a case in July, 1982, a defendant successfully appealed his conviction on the grounds that the prosecution had failed to prove lack of consent. The Chief Justice ruled that the prosecution must prove that no consent had been given by the copyright owner for the manufacture of the alleged infringing copies to anybody anywhere in the world. He also ruled that the evidence had to be given directly by the copyright owner or from the witness' personal knowledge. In most cases in Singapore, the evidence of a local licensee would not be acceptable. Therefore, the decision has restricted the ability of the prosecution to bring cases involving foreign repertoire such as U.S.-owned sound recordings, in that it is now necessary to call each copyright owner to give direct evidence as to lack of consent.

Indonesia is an oil-rich nation with a population of 150 million, and thus would ordinarily be a commercially attractive foreign market for the sale of U.S. sound recordings. However, the Indonesian Copyright Law does not give specific protection to sound recordings, and Indonesia has refused to adhere to any of the several international conventions recognizing copyright protection for sound recordings. As a result, 40 million counterfeit and pirate tapes were manufactured and sold in that nation last year, with an estimated market value of $75.7 million (U.S.), which constituted 50 percent of the over-all market in Indonesia.

In India, it is estimated that more than 30 million counterfeit and pirate tapes were manufactured last year, accounting for 95 percent of that country's sound recording market and $77.2 million (U.S.) in sales. One major cause for the continuing difficulties in the Indian market is the refusal of government officials to recognize phonorecords as media of culture and education, thus relegating them to an extremely low priority for protection by government and law enforcement agencies.

The Indian Phonographic Industry has attempted to conduct an anti-piracy campaign during the past two years, but found that the time and money expended in such efforts produced little or no return. The yield of seized product has been gradually diminishing because of suspected corruption in local government, particularly in Delhi, the largest pirate-center. This resulted in security leaks and advance notice of planned searches. These unfruitful raids in India are risky, because they invite defamation charges by those from whom nothing incriminating is recovered, and leads courts to refuse to issue search warrants to prevent harassment of ostensibly innocent traders.

Korea experienced the sale of 1.75 million units of pirate and counterfeit tapes in 1982. This constituted 25 percent of that market, with the illicit activity valued at $1.3 million (U.S.). In Thailand, 10 percent of the tape market was counterfeit or pirate in 1982. This amounts to over 900,000 illicit sound recordings valued at over $1.2 million (U.S.). Malaysia had, 2.7 million counterfeit and pirate tape recordings in its market, valued at approximately $3.4 million (U.S.) and constituting 45 percent of that market in 1982. The Philippines had a 40 percent illicit penetration of counterfeit and pirate product in its tape market, with those 2.5 million unauthorized units valued at $5.5 million (U.S.).

In Taiwan, a massive quantity of illicit discs and tapes exists. Pirate and counterfeit discs accounted for 65 percent of that market in 1982, with an estimated 1.62 million units valued at $1.2 million (U.S.). During that same period, 60 percent of the tape market in Taiwan was made up of illicit product, representing at least 3.6 million pirate and counterfeit units, valued at $2.7 million (U.S.).

MIDDLE EAST

In the Middle East, the situation is no better. In Bahrain, Juwait, Saudi Arabia, Syria and The United Arab Emirates, 95 percent of the music cassettes manufactured and sold are counterfeit and pirate unauthorized duplications. Other countries in the region, where counterfeit and pirate tapes account for approximately 90 percent of the market, include Lebanon, Morocco, Tunisia and Turkey.

Egypt is the most important market in the Middle East because of its massive population and position as cultural leader of the Arab world. In 1982, 55 percent of the market was dominated by counterfeit and priate tapes. Law enforcement authorities have only just begun to show interest in this problem, confiscating approximately 70,000 illicit cassettes in 1982. Although Egyptian authorities will now act against pirates, the complainant must show that he is the authorized local representative of the victimized recording company and must be able to indicate the place where the illicit sound recordings are being manufactured. The local Egyptian

recording industry indicates that there are two major pirate manufacturers in Egypt and that both are known to the police. The authorities have chosen to accept the claims of these pirates that they represent international recording companies and yet to accept the validity of evidence presented by IFPI disrupting these claims.

In Kuwait, the problem stems from a lack of copyright legislation. Although the authorities actively protect Arabic recordings throughout the region (by means of unfair competition law), international repertoire such as United States sound recordings remain unprotected in that country.

In Morocco, over one million counterfeit and pirate tapes were manufactured last year, and the preponderance of thes goods were exported to Europe and other foreign markets. Because of the small domestic market, there has yet to be any government sponsored anti-piracy activities.

Tunisis, although a small market, suffers a 90 percent penetration of ilicit sound recordings. Tunisia is also important symbolically as the home of several important Arab organizations, including the Arab League. Despite this and Tunisia's strong cultural and musical heritage, there have been no anti-piracy activities by government and law enforcement agencies there.

AFRICA

A situation even worse than that in the Middle East countries exists in Nigeria, the most populous country in Africa. According to our reports, in that nation of almost 100 million people, no legitimate music cassettes were manufactured or sold during 1982. Yet, sales of counterfeit and priate music cassettes in excess of $22 million (U.S.) were monitored during that same time period. The local industry reports that counterfeit and pirate reproductions account for almost 100 percent of the cassette market and a large proportion of the disc market.

While several industry-backed lawsuits and educational campaigns have been undertaken, there is still a lack of interest on the part of government and law enforcement bodies to deal with this situation.

LATIN AMERICA

Looking to Latin America, several countries suffer from extensive penetration of the sound recording market by counterfeit and pirate tapes. In Panama, as much as 80 percent of the musical tape market is dominated by counterfeit and pirate goods. In Peru, the percentage of illicit tape recordings is approximately 70 percent. Bolivia and Chile both report that approximately 50 percent of the tape recordings manufactured and sold there are counterfeit and pirate. The huge Mexican market had a 40 percent penetration of counterfeit and pirate tapes in 1982—equalling approximately 11 million illicit units or $30 million (U.S.) in lost retail sales.

EUROPE NORTH MEDITERRANEAN

In Europe, major pockets of counterfeiting and piracy also exist. In Greece last year, $19 million (U.S.) in pirate and counterfeit tapes were manufactured and sold, accounting for nearly 77 percent of that intire market. The main obstcle to a major anti-piracy campaign in Grece is the inadequacy of the antiquated 1920 Copyright Law, which does not recognize the rights of sound recording owners and producers. This, in effect, means that all anti/piracy actions ahve been dependent on the musical composers' society (AEPI) to take legal action under the Greek Copyright Law. Moreover, the penalties under this Law are too inadequate to seriously deter the pirates.

In Cyprus, piracy and counterfeiging are widespread. Under Cypriot Coyyright Law, protection for sound recording owners and manufacturers does not extend to international recordings. To date, the Cypriot government has shown no interest in extending legislative protection of sound recordings to international repertoire such as U.S. owned sound recordings.

In Portugal during 1982, 4.2 million units of counterfeit and pirate tapes were manufactured and sold, representing a 70-percent share of that market. Despite the huge quantities of counterfeit sound recordings in their market, Portugese authorities reported seizures of only 25,000 illicit cassettes from manufacturers during 1982, constituting a mere half of one percent of the problem. Portugal is also a trans-shipping point for illicit Singapore recordings, which have been offered for sale in Europe in container-lot quantities of 180,000 units per container.

In Italy, 33 percent of the tapes and 5 percent of the discs manufactured and sold in 1982 were counterfeits and pirates, valued at $21.2 million (U.S.). One example of the depth of the problem in Italy is reflected in a raid conducted on June 15, 1983 in

the area of Monterenzio near Bologna. Goods seized included 20,000 counterfeit music cassettes with fake SIAE stamps (SIAE stamps are purchased in Italy by the payment of royalties due to music producers and placed upon authorized phonorecords to indicate their legitimacy), 4 million counterfeit SIAE stamps, 700,000 cellophane "envelopes" each bearing a counterfeit RCA trademark, 3 duplicating machines, counterfeit SIAE stamps for imported discs and various other paper materials for use in counterfeiting. Despite this one spectacular raid, an estimated 5.5 million counterfeit and pirate tapes were manufactured in Italy in 1982, and all anti-piracy efforts that year resulted in the seizure of only about 660,000 of those illicit sound recordings.

In The Netherlands, the industry reports that only 3 percent of the disc market and 5 percent of the tape market is comprised of counterfeit and piractical sound recordings.

However, The Netherlands has become a major trans-shipping point for counterfeit sound recordings to and from the rest of the world. As one example, in July of this year, one shipment of over 413,000 counterfeit Motown LP sound recordings of American artists such as Stevie Wonder, Michael Jackson, Diana Ross and The Commodores was seized in The Netherlands. Further investigation indicated the probability that the product was counterfeited in Spain and intended for distribution throughout Europe. The counterfeiters in this case intended to ask for $4.00 per unit, as compared to current legitimate retail prices in the $8.00 to $10.00 range. Because The Netherlands has no importation regulations, it will most likely continue as the most popular country in Europe for such trans-shipments.

CONCLUSIONS

1. Foreign piracy and counterfeiting represents a major economic problem for the U.S. music and sound recording industries. The estimated total sales of counterfeit and pirate U.S.-owned sound recordings overseas last year was well over $250,000,000 (approximately 50 percent of the estimated $515 million in counterfeit and pirate sales outside the United States in 1982).

2. This loss adversely affects the U.S. music and recording industries in the following ways: (a) loss of potential sales revenues worldwide; (b) higher unit costs and prices for legitimate recordings; (c) extra costs for anti-piracy efforts; (d) reduced contribution to U.S. balance of trade; (e) prevalent availability of lower quality recorded music in illicit recordings, thus diminishing perceived value of the product; (f) reduced income for United States creators, performers, copyright owners, unions, recording companies; (g) reduced capital for new United States artists, talent development, and diversity of new music; and (h) lost income for legitimate foreign divisions and licensees of U.S. companies.

3. The primary country sources of piracy/counterfeiting are (listed in alphabetical order): (a) Argentina; (b) Brazil; (c) Greece; (d) India; (e) Indonesia; (f) Italy; (g) Malaysia; (h) Mexico; (i) Nigeria; (j) Philippines; (k) Portugal; (l) Saudi Arabia; (m) Singapore; (n) Taiwan; (o) Turkey; and (p) Venezuela.

4. U.S. sound recording companies spend millions of dollars each year in their efforts to combat the worldwide problem of counterfeiting and piracy of sound recordings. Contributions by U.S. companies to the RIAA anti-piracy effort and to IFPI's anti-piracy activities total several million dollars each year. In addition, several companies have experimented with "anti-counterfeiting" or "counterfeit detection" devices. Unfortunately, despite extensive experimentation and continuing research and development, no one has yet discovered a system effective in either preventing unauthorized duplications of sound recordings or a system allowing for effective detection of counterfeit sound recordings in retail stores.

For example: Warner Communications Inc. has engaged in a program to affix 3M designed and produced retro-reflective stickers on their sound recordings and video products.

Chrysalis Records has used "anti-counterfeit" insert cards produced by Light Signatures and based upon the concept of reading and encoding the unique "fingerprint" of a piece of paper on that same piece of paper.

MCA has tried a system of heat sensitive memory ink stickers marketed in the U.S. by Jack Cummings Associates.

Motown Records has experimentally marketed product with devices from OPROC based upon bar code technology, and has also tried "Reflection" stickers produced by Armstrong.

Other companies are exploring systems proposed by Polaroid ("Polaproof"); American Bank Note and U.S. Bank Note (based upon intaglio printing with latent images); American Bank Note again (holographic images); Graphic Security Systems

(scrambled indicia); and many others. In addition, recording companies continue to do research and development in-house in hopes of developing an effective anti-counterfeiting system.

Finally, U.S. recording companies have increased the security involved in the duplication and transportation of masters and negatives for artwork. In addition, some companies have begun to code their graphics and encode their masters as additional security measures.

However, these attempts at self-help have not proven effective, and nothing to date has succeeded is stemming the tide of piracy. Aggressive government action is the only solution to this problem.

RECOMMENDATIONS

1. Our recommendations for U.S. government action are:

(a) Appropriate diplomatic action targeted at offending countries to enforce existing laws where they exist; and, where they don't exist, to enact new copyright and anti-piracy statutes with adequate criminal penalties to protect all sound recordings, including U.S. owned repertoire;

(b) Appropriate diplomatic action in the offending countries to gain their adherence to applicable international copyright treaties and conventions;

(c) Aggressive programs within U.S. embassies and trade missions abroad in combatting foreign piracy and counterfeiting; and

(d) Economic and trade sanctions against offending countries to assure the same rights, protections, and ligitimate market access which those countries enjoy from the U.S.

2. To achieve these objectives, we strongly recommend enactment of "reciprocity" legislation such as that contained in S. 144. This bill would strengthen the President's ability to respond effectively to unfair trade practices abroad, including those described in this Statement.

STATEMENT OF THE SHERWIN-WILLIAMS CO.

As a manufacturer of saccharin, Sherwin-Williams' experience with competition from Korean imports receiving preferential treatment under the GSP is an excellent illustration of why the GSP program must be changed. The Sherwin-Williams Company is the only remaining U.S. manufacturer of saccharin, including insoluble saccharin, a sodium saccharin and calcium saccharin, which it manufactures at the company's facility located in Cincinnati, Ohio.

The GSP program is currently dominated by a small group of countries, receiving the lion's share of the benefits, which can no longer be called least developed. Neither the Trade Act of 1974 nor S. 1718 adequately provide for elimination of beneficiary status for those countries which attain a highly competitive position in the market place. Duty free entry of saccharin under the generalized system of preferences has caused substantial harm to the Sherwin-Williams Company. Its production of the chemical is well below full capacity and the company is faced with falling prices and shrinking profits brought on largely be already significant foreign price pressures.

Saccharin is imported into the United States primarily by four countries: Korea, Japan, China (PRC) and Taiwan. The Republic of Korea has become the largest single importer of saccharin into the United States having surpassed Japan. As such its competitive position is well established. Indeed, Korea has also been a price leader in the U.S. market for saccharin and does not need duty-free GSP status to compete. Because of its price advantage, it could maintain or even expand its market share without GSP status for saccharin.

Sherwin-Williams' share of the domestic market has been eroded steadily by imports, particularly from Korea and Japan. By the end of 1983, Sherwin-Williams' once dominant share of the market had shrank to roughly 50 percent with imported saccharin accounting for the rest of the market. (Sherwin-Williams' current production capacity would allow it to supply 100 percent of domestic demand at current levels.)

The most recent import statistics clearly demonstrate Korea's ability to rapidly achieve substantial market penetration. From 1982 to 1983, Korean imports of saccharin (imported under TSUS 413240—"saccharin") more than doubled (2.2 times). Nor are the Korean imports merely displacing other foreign imports. Japanese saccharin imports increased by over one and a half times in the same period while Sherwin-Williams' sales have barely increased in the expanding market for saccharin. The net result is substantial loss of market share to foreign competition.

Sherwin-Williams' experience with Korean imports demonstrates why the 50 percent competitive need limit is not an adquate safeguard to protect domestic interest. In 1981, Korean imports exceeded the competitive need limit and, therefore, Korea was ineligible for GSP status in 1982. The Koreans have since learned to be more careful. In 1983. Korea was able to keep its saccharin imports at a level just under 50 percent of the total for all imports and at the same time increase its share of the U.S. market. By doing so, Korea is able to maintain its position as the leading importer of saccharin while also receiving the benefits of preferential tariff treatment under the GSP program.

Despite the steady decline in market share for Sherwin-Williams, and despite the high fixed costs associated with producing saccharin, Sherwin-Williams has attempted to limit laying off employees as much as possible. Nevertheless, foreign competition forced the company to lay off approximately one-third of its saccharin work force in 1982. If the company's market shares and profits continue to decline, the company will have no choice but to lay off additional exmployees. It is important to recognize that even with these severe cost cutting efforts and resulting price reductions, Sherwin-Williams still lost market share to foreign competition in 1983 and it expects that erosion to continue. Substantially lower labor costs and government subsidies have made it virtually impossible to compete on price with a GSP advantaged country like Korea. Even though we are cutting our costs to the bone, continued GSP status for Korean saccharin may lead to the closing down of the only remaining U.S. saccharin plant.

It is well established that 64 percent of all GSP duty-free imports in 1982 came from five countries. These countries, including Korea, have clearly graduated to the stage of economic development where, having proven their competitive position in the U.S. market, they no longer need the benefits of GSP duty-free treatment on their exports to the United States. Moreover, these countries have experienced significant increases in per capita GNP since the GSP program came into effect. Korea, for example, enjoyed an increase in per capita GNP of 170 percent in the period from 1975 to 1980.

The continuation of beneficiary status for countries such as Korea is contrary to the intent of Congress when it established the GSP. It does not make sense to allow a developed country which has already captured a major portion of the U.S. market for a certain product to continue to enjoy duty-free status for that product. In the case of a product such as saccharin the GSP program, by granting imports an extra competitive edge, operates significantly to the detriment of American Industry and American jobs.

STATEMENT OF DOUGLAS THOMSON, PRESIDENT, TOY MANUFACTURERS OF AMERICA, INC.

This Statement is submitted in behalf of the Toy Manufacturers of America, Inc. (TMA) in support of renewal of the "Generalized System of Preferences" (GSP). The TMA was founded in 1916 and represents 250 American toy manufacturers, who are responsible for 90 percent of all toy sales in the United States. In 1982, the industry reported total shipments of close to $6 billion in toys, dolls, and games, almost $2.5 billion more in shipments than in 1977. Between 1976 and 1982, TMA members imported over $7 billion worth of board games, video games, dolls and doll clothing, magic tricks and other popular toys and games; close to $2 billion worth of these items entered duty-free from developing countries during these years under the GSP program, representing a savings of over a quarter billion dollars in duties.

TMA believes that renewal of GSP for toys, dolls and games, from all developing countries, including the more advanced beneficiaries such as Hong Kong, Taiwan and Korea, is in the nation's best economic interest. The GSP programs of all other industrial countries have been renewed at least through 1990. We believe it would be appropriate to renew the U.S. program for an additional 10 years—through 1995. The commercial experiences of TMA's members eloquently speak for the substantial economic benefits of the GSP, both to the toy industry and the American public. We believe this experience is equally relevant for U.S. industry as a whole. The TMA urges the United States Congress to pass legislation similar to that which has been introduced into the Senate (S. 1718) renewing the GSP program because:

1. GSP permits the domestic toy industry and similarly situated industries to maintain and increase production and employment in the United States;

2. Elimination of the GSP will not increase jobs or production in the United States but will substantially increase the prices of toys and other like products purchased by the American public; and,

3. The Bill's provision for Presidential waiver of the competitive need limit will provide needed flexibility to permit maximizing the benefits of GSP to American industry and consumers where no threat to domestic producers exists.

The United States International Trade Commission (ITC) in its Evaluation of U.S. Imports Under the Generalized System of Preferences (USITC Pub. No. 1379, May 1983), found that the annual rate of GSP imports increased approximately 17 pecent from 1978 to 1981, reaching $8.4 billion in that year. Even considering this increase in imports of more than $3 billion, the penetration level of GSP imports in the U.S. market remained exceedingly low—no more than 0.5 percent. The principal benefit of the GSP to designated countries has been the promotion of economic development and diversification, while any detriment to American industry is virtually too small to be measured. One of the reasons why import penetration has been so low is that many GSP beneficiary countries still lack sufficient technology, manufacturing capacity, basic infrastructure for supporting plant facilities, and other imputs such as skilled labor and capital to take advantage of the trade opportunities offered by the U.S. government.

Increased trade with developing countries resulting from fewer trade barriers has been enphasized by the United States as an alternative to other forms of economic assistance. By increasing exports, these countries are able to acquire the foreign exchange which they need to buy equipment and commodities, often purchased from the importing country, like the U.S. Thus, by facilitating the importation of designated products, the GSP program actually benefits both the developing country and American producers who have goods for export. Debtor nations, such as Mexico, Argentina and Brazil, would experience extreme financial difficulty if their GSP benefits were abruptly ended or curtailed next year. The significant decline in U.S. exports to these and the other debtor developing nations in the past few years would, without question, be accelerated.

S. 1718 not only extends the GSP program, it also adds Presidential discretion for flexibility where it is in our national economic interest to recognize the favorable effect of specific foreign-sourced goods. The selective nature of the GSP program already tends to exclude import sensitive commodities, by limiting product coverage of eligible items to only about 35 percent of total U.S. imports. Of this 35 percent, certain products from specific countries are automatically excluded in a given year by the competitive need formula. S. 1718 would give the President discretion to waive automatic cut-off of duty-free treatment when he finds it to be in our economic interest to do so.

The TMA considers this waiver provision to be a significant improvement over existing law because of its enlightened approach toward individual industry needs. Automatic competitive need limits are inflexible and have not allowed U.S. industry to make the most advantageous use of complementary production opportunities in beneficiary developing countries. Certainly this provision has not served the commercial interests of the American toy industry. This new provision would better enable the industry to take advantage of the opportunities of complementary production in these countries. By sourcing certain toys and games abroad, the toy industry has been able to rationalize production on the basis of labor and transportation costs, so that GSP imports actually complement American production, and lead to increased employment in production, design, marketing and packaging.

TMA believes that the toy industry's experience in developing an integrated industry utilizing both domestic production and imports to maximize sales of a nonessential product well illustrates the benefits to the U S. economy of th GSP program. Because toys, games and dolls are labor-intensive, and the large variety of patterns and styles necessary to produce a full line of items prevents automation of most of the production process, the domestic part of the industry concentrates on the production of larger, higher-quality items, with imports supplying the remainder of the market.

For instance, in its study on Dolls And Stuffed Toy Animals (USITC Pub. No. 841, Control No. 7-5-7, July 1980), the ITC found that:

"Doll clothing imported separately is used primarily on domestically produced dolls, and although such imports have only been eligible under GSP since March 1, 1978, the fact that nearly 75 percent of total imports in that year and more than 8 percent in 1979 entered under GSP indicates U.S. manufacturers' willingness to take advantage of these savings." (At 13)

Rather than competing with American-made goods, imports from developing countries actually round out the toy, doll and game offerings which the domestic companies can provide the U.S. market. Some examples from the ITC's recent study of Toys, Games And Wheel Goods (USITC Pub. No. 841, Control No. 7-5-27, March 1983) include most dice and all dominoes, which are imported by board game pro-

ducers, because the domestic machinery is too old to produce these items competitively; most plastic model kits are made domestically, while imported kits tend to be models that are not domestically produced, such as high-priced brass locomotive kits from Japan. In the case of dollhouse miniatures, imports tend to concentrate on inexpensive reproductions (often based on domestic designs), whereas domestic production more often occupies the higher priced, low-volume end of the market. Similarly, imports generally occupy the lower price ranges for magic tricks and joke articles, particularly the plastic practical joke articles, whereas domestic production, which accounts for a large share of consumption, is concentrated in the higher quality magic tricks and more complex practical joke articles.

TMA's member companies have actively sought out low cost foreign sources such as Hong Kong, Taiwan and Korea for the explicit purpose of complementing domestic production with merchandise which they cannot produce economically in substantial commerical quantities in the United States. The competitive need exclusion provision in the present law has worked to frustrate these efforts. Overall, automatic competitive need exclusions grew almost 275 percent, from $1.9 billion in 1976 to $7.1 billion in 1982. The intended uses for the automatic competitive need limitations were to establish a benchmark for determining when products are able to compete in the U.S. marketplace and therefore no longer need GSP eligibility; to reallocate GSP benefits to less competitive developing countries; and, to provide a measure of protection to domestic producers of like or directly competitive products. S. 1718 would permit the President to weigh these objectives along with others he determines to be relevant and then decide on a case-by-case basis whether exclusion of a product from a country is in the overall economic interests of the U.S.

In the case of imported toy products he would consider that the majority of toys in the United States are either products of, or contain component parts produced in, developing nations around the world. Quoting the ITC, again, from its report on Toys, Games And Wheel Goods:

"There are some small firms devoted solely to the production of certain types of toys, but most of the major producers manufacture a wide variety of toys, games, and children's vehicles. In addition, *most domestic producers, including all the major firms,* import to some extent, ranging from the importation of certain lines or parts to significant investment in foreign production facilities for supplying both the United States and foregin market." (At 87) (Emphasis added.)

This decision to import from developing countries is based on the commercial assessment by domestic toy producers of labor and freight costs involved in making and shipping toys:

"As labor costs provide a disincentive for manufacturers to produce high-labor-component toys domestically, transportation costs provide an incentive to produce larger toys in the United States. Domestic production is weighted toward larger nonmechanized toys of all types, particularly wooden and steel toys. There is also a trend in the production of stuffed toys having a spring mechanism and filled toys to have the cutting and sewing done in foreign facilities and the stuffing or filling and finishing done in the United States. In this manner, the domestic manufacturer can take advantage of the lower labor costs abroad in producing the parts requiring the highest labor input, while avoiding much of the transportation cost penalty by shipping toy skins instead of finished figures." (At 89)

Thus, for an industry like the toy, game and doll industry, automatic "competitive need" limits do not make sense—these items are not in competition with American products but are complementary to and essential for American production and sales.

S. 1718 would permit the President to continue the GSP designation of a highly productive developing country with respect to an eligible article if he deems it to be in the national economic interest. This provision would make it possible, in conditions of competition such as the U.S. toy industry faces, to achieve that ideal situation where American workers, producers and consumers enjoy the advantages of open trade without injury from duty-free imports. Thus, the President would be able to take into account such industry-specific factors as the need to maintain stable and reliable sources of supply; the relationship of laobor, material and transportation costs; and the technical capability to produce a particular product in the country in which manufacturing operations are performed. In the American toy market, where a substantial portion of the products may be new each year, many of these toys would simply not exist if complementary foreign sources of supply were not available.

Automatic competitive need exclusions under present law have substantially failed to advance the reallocation of GSP benefits to the less developed of the beneficiary countries. In the ITC's Annual Report on the Operations Of The Trade Agree-

ments Program (USITC Pub. No. 1414, 1983), evidence of this failure was discussed, and the Commission found that, of the 140 countries and territories eligible for GSP tariff treatment, only ten countries in 1982 accounted for almost 84 percent of all GSP imports. This situation continues despite the operation of the competitive need exclusion provision. It is simplistic to suppose that the competitive need provision can be used to engineer the target countries for U.S. investment. The investment decisions involved in sourcing from developing countries will not abruptly change with the cut-off of GSP eligibility, and long-term investment decisions in the less developed countries have to take into account of more than the duty-free treatment of the end product. Besides, investors now must face the future cut-off of GSP from even the secondary supplying country, to which production may be shifted, once it too becomes a successful exporter to the U.S.

In the ITC's discussion of stuffed toy animals in its Dolls And Stuffed Toy Animals Report, it was obeserved in commenting on investment decisions that:

"[M]uch of the Korean production resulted from the direct investment by a number of U.S. stuffed toy producers in order to take advantage of the lower Korean wage rates. This advantage was apparent to other producers as well because at least one major West German manufacturer now obtains part of its product line from Korea. The U.S. investment also spawned a number of independent stuffed toy producers which took advantage of the favorable U.S. stuffed toy market. These producers, as part of an overall Korean toy industry push to increase exports, sold products to a relatively new group of importers which had not previously been marketing stuffed toys in the United States." (At 13–14)

The investment decisions of American toy manufacturers who source their products from abroad enable them to make efficient use of foreign labor and employ substantial numbers of American workers in the development, production, marketing and selling of these toys, games and dolls. Thus, while eliminating GSP for advanced developing countries does not abruptly shift investment to other, less developed beneficiaries, the impact of fewer imports takes its toll in domestic sales and employment.

For example, in 1981, the first year in which imports of doll clothing imported separately from Hong Kong, classified in item 737.21, TSUS, were ineligible for duty-free entry, Hong Kong imports totaled $11.6 million, 48 percent of the $24 million imported from all countries. In 1982, total imports declined by $3.3 million to $20.8 million, while Hong Kong imports increased to 50.9 percent of this total, declining by $1 million in absolute terms. The largest decrease in total imports from 1981 to 1982 was in duty-free GSP imports, which declined by $4.6 million. Thus, the imposition of a relatively substantial 12.8 percent duty has not resulted in a relative decline in doll clothing produced in Hong Kong, as compared to competitive clothing produced in other beneficiary developing countries.

S. 1718 would not only give the President the discretion to retain GSP benefits for particular products imported from advanced developing countries, but would also permit the President to waive competitive need limits altogether for those countries which he designates as least developed. With the knowledge that heavy investment in such countries will not be jeopardized by its very success in increasing export production American toy manufacturers would be encouraged to diversify their investments to include these least developed countries. Thus, S. 1718 avoids the "cut-off-your-nose-to-spite-your-face" problem which automatic competitive need limits have created and provides conditions under which significant investments will be directed toward the lesser developed of the beneficiary developing countries.

In considering the effects, real and potential of the GSP on investment decisions of America corporations, such as those in the toy industry, it is important to understand the relationship of those decisions to the developing countries. If the GSP were eliminated or curtailed, the imposition of the regular tariffs on these toy items would not offset the wage-rate advantage which the developing countries enjoy in the highly labor-intensive elements of manufacture. Indeed, if the duty-free entry of toy components pursuant to the GSP were terminated, the result would be in all likelihood that producers would move more and more of their operations overseas to low-wage countries, with a corresponding decrease in U.S. employment. Obviously, this result benefits no one.

S. 1718 does provide sufficiently for the protection of a truly endangered U.S. industry. Under its provisions, the President may lower the competitive need limits

for countries which have demonstrated a strong degree of competitiveness as compared to other beneficiary developing countries where it is appropriate to do so. This would offer a sufficient measure of protection to domestic producers of like or directly competitive products while not abruptly curtailing sources of supply in those products. We would anticipate, of course, that these limits would not apply to products, such as toys, which do not compete with domestically produced items.

In a recent article in Toys, Hobbies & Crafts (December 1983, P. 43-46), entitled "The Threat to Duty-Free Toys", the question asked of the U.S. Congress is: "How appealing would a 15 percent price increase on nearly three-quarters of total toy product be to the industry?" And where would that 15 percent in added costs be absorbed? By the manufacturer? The retailer? The consumer?

One member of TMA sold $654.8 million worth of toys, games and dolls in fiscal 1982 while employing 6000 American workers. If this company did not have the opportunity to import toys dutyfree pursuant to the GSP, its costs would have increased by over $98 million in just that one year. If the prices of toys were raised to cover costs, sales would decrease; if sales decreased, or it the costs were absorbed internally, employment would be affected. Multiply that by 250 companies, and the picture is depressing.

This fact cannot be overemphasized. The toys and dolls which TMA's member companies source from overseas suppliers require labor-intensive assembly and decoration in the production process. These toys would not exist if foreign sources of supply were not available, given the price sensitivity of demand for these products. TMA is unaware of any company which currently produces high-volume products in commercially significant quantities in the United States. Thus, if GSP were eliminated, American toy manufacturers would have no alternative but to move more and more of the production operations offshore, in an attempt to reduce costs and thereby sustain demand.

We note that in estimating the effect of the reimposition of regular duties on doll's clothing, the ITC uses an adjustment factor of 2.3 to calculate the cost of the 12.8 percent duty thus fining a price increase to consumers of more than 29 percent, before sales and other taxes.

As the ITC concluded in its summary of "Dolls And Stuffed Toy Animals," "There is . . . very little real growth expected in these industries in the near future." (At 9) An additional $0.29 on every dollar quickly adds up to a price which American consumers would find it hard to pay for articles of amusement. And when sales go down, naturally business contracts. "Very little real growth" means that many jobs are on the line.

The TMA understands that the objective of the GSP in the past has not been to keep prices down for American consumers nor to eliminate tariffs generally. But S. 1718 would give the President the discretion to take these interests into account and to determine that continuation of GSP duty-free eligibility is in America's best economic interest. If the U.S. Congress does not renew and rationalize GSP, the American toy industry will be forced to move more production offshore, with a corresponding decrease in U.S. employment. Jobs in California, New York, Illinois, Massachusetts, New Jersey, Ohio, not to metion retailers throughout the country who could face decreased sales, would be placed in serious jeopardy.

In conclusion, the TMA can assuredly speak from the experiences of its members in the highly competitive U.S. toy, game and doll industry, and all available evidence supports our view, that it is vitally important to us, our employees and the American consumer that the GSP be allowed to continue and that its benefits be extended to include all toys, games and dolls which are produced in the advanced developing countries. The substantial production, development, marketing and selling activities which the American toy industry conducts in the U.S. have all benefited from the fact that many of its imported products have been allowed to enter the United States free of duty pursuant to the GSP. We believe our experience is common to many industries producing highly price-elastic products in integrated multi-nation industries where U.S. and offshore operations have become complementary.

The original concept of GSP was that by facilitating trade with developing countries other forms of assistance would be minimized. While this concept remains valid, to it has been added another reason for GSP: the economic self-interest of the U.S. Our own industry's economic health and prosperity, as is the case for many similarly situated sectors, is now securely linked to such developing countries, and the success of the GSP program has been the success of our domestic industry. We believe the legislation introduced into the Senate recognizes this relationship and provides the President with the flexibility in the administration of the law which he needs to maximize the benefits of GSP to the U.S. economy.

Respectfully submitted.

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